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TRADE PROSPECTS AND STRATEGIES OF ASEAN COUNTRIES FOR THE 1980S*

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ASEAN or the Association of Southeast Asian Nations has successfully demonstrated in the 1970s that it is here to stay quite unlike its predecessors, ASA and the Maphilindo. The ASEAN econony represents a unique mixture of national economies at different stages of economic development based on different growth strategies. The range is extremely wide. At one extreme, there is the Singapore economy which is poor in natural resources, rich in skill endowments, highly industrialized and heavily export-oriented with an outward-looking development strategy. At the other extreme, there is the Indonesian economy which is rich in natural resources and poor in skill and technology, specializing in primary production mainly for the export market, with infant industries that are domestic market oriented based on an inward-looking strategy. Between these two extremes lie the economies of Malaysia, the Philippines and Thailand whose export specialization in traditional commodities is gradually giving way to export orientation in modern manufactures, which has called for structural changes in their manufacturing sectors. Thus, there are marked differences in the industrial and trade policies of ASEAN countries.

All these notwithstanding, ASEAN countries display strikingly similar economic characteristics which are strong enough to bind them together. The limitation of import substitution based on domestic markets, the difficulty of access to the markets of advanced countries and the instability of their primary exports and the vulnerability to externally induced economic fluctuations are some of the major problem areas common to all of them. It is this commonality that provides the rationale for ASEAN economic co-operation.

ASEAN, thus, represents a group of developing countries which are basically oriented toward the global economy. Trade issues therefore figure prominently in most ASEAN deliberations. Regional economic co-operation in Southeast Asia has introduced new dimensions which are bound to affect the scenario significantly. It will indeed be interesting and useful to examine the trade policies of ASEAN countries. Implications for the 1980s can be drawn from such an analysis.

/I.

I. FOREIGN TRADE PROFILES OF ASEAN COUNTRIES

The degree of economic dependence of ASEAN countries on the world economy is reflected in ASEAN's trade structure and trade relations. In 1975, ASEAN exports and imports accounted for 2.4 per cent and 2.8 per cent of world exports and imports, respectively (table 1). ASEAN's trade has also been growing at a remarkably high rate (table 2). For instance, during the period 1970-1975 ASEAN exports registered a growth rate of more than 28 per cent per annum which compares favourably with the world average of less than 23 per cent per annum. Likewise, the annual growth rate of ASEAN's imports during the same period amounted to nearly 27 per cent, as compared with the world average of a little more than 24 per cent.

The rold of ASEAN in international trade is a fairly significant one, although the share of ASEAN in total world trade appears to be somewhat small in aggregate terms which however obscure the dominant role played by ASEAN in the world commodity markets. Malaysia, Indonesia and Thailand jointly account for 83 per cent of the world exports of natural rubber and 68 per cent of the world exports of tin metal; Malaysia, Indonesia and Singapore together dominate the world palm oil exports (80 per cent of the world exports) and the world pepper exports (47 per cent of the world exports); and 67 per cent of the world exports of coconut, copra and coconut oil is jointly accounted for by the Philippines, Malaysia and Singapore.[1/] ASEAN also accounts for substantial proportions of the world exports of rice, sugar and forest products.

A. COMPOSITION OF TRADE

That ASEAN countries are essentially primary producers is reflected boldly in the composition of ASEAN exports. Singapore is perhaps the only exception; but, even for Singapore primary exports are of considerable importance owing to its entrepot trade. ASEAN's exports in general are characterized not only by a heavy dependence on primary products but also by a heavy concentration on a narrow range of primary commodities. Thus, in 1974, total exports of six major commodities formed 92 per cent and 75 per cent of the total exports of Indonesia and Malaysia, respectively, as shown in table 3. In the Philippines, five major commodities accounted for as much as 72 per cent of the total exports in

/Table 1.

1/ The percentages are for the year 1974. See John Wong, The ASEAN Economies - the Need for Another Development, (Mimeographed) UN ESCAP, Bangkok, (DP/STR(2)/7), Statistical appendix 1.

TABLE 1

ASEAN: VALUE OF EXPORTS (f.o.b.) AND IMPORTS (c.i.f.) 1950-1975
(US$, MILLION)

	1950	1955	1960	1965	1970	1975
Indonesia:						
Exports	800	946	841	708	1,110	6,200
Imports	440	630	578	695	1,000	5,000
Malaysia:						
Exports	1,003	964	1,189	1,256	1,762	4,200
Imports	538	677	905	1,119	1,489	4,200
Philippines:						
Exports	331	401	560	794	1,119	2,214
Imports	376	603	663	894	1,286	3,600
Singapore:						
Exports	1,006	1,101	1,136	981	1,554	5,360
Imports	1,069	1,262	1,352	1,244	2,461	8,260
Thailand:						
Exports	304	335	408	622	710	2,400
Imports	209	334	453	771	1,293	3,200
ASEAN:						
Exports	3,440	3,750	4,130	4,360	6,260	20,370
Imports	2,630	3,510	3,930	4,720	7,530	24,260
World:						
Exports	60,700	93,800	128,300	186,500	312,400	861,500
Imports	63,800	98,200	135,200	197,700	328,500	890,600
ASEAN as a percentage of world (%)						
Exports	5.67	4.00	3.22	2.34	2.00	2.36
Imports	4.12	3.57	2.91	2.39	2.29	2.72

Source: UNCTAD Handbook of International Trade and Development Statistics, 1976.

/Table 2.

TABLE 2

AVERAGE ANNUAL GROWTH RATES OF EXPORTS AND IMPORTS, COMPARATIVE FIGURES FOR ASEAN AND THE WORLD: 1960-1975 (PERCENTAGES)

Region	Exports			Imports		
	1960-67	1967-70	1970-75	1960-67	1967-70	1970-75
ASEAN	1.6	10.5	28.5	4.8	11.4	26.8
Indonesia	-3.3	18.6	45.4	1.7	15.5	38.0
Malaysia	-0.7	12.1	19.9	3.2	9.7	24.0
Philippines	6.6	8.5	16.1	8.5	3.1	22.9
Singapore	0.1	10.9	29.6	1.1	19.6	28.4
Thailand	7.6	1.4	28.8	12.9	6.8	20.3
World	7.7	13.2	22.9	7.7	13.1	22.4
Developed Countries	8.3	14.4	20.9	8.7	14.1	21.4
Developing Countries	5.3	10.4	31.6	4.8	10.2	26.3

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976.

/1974

1974, while the corresponding figures for Singapore and Thailand were much less, 46 per cent and 49 per cent, respectively (table 3).

Among the major export commodities, petroleum occupies an increasingly important position. It accounted for 50 per cent of Indonesia's exports in 1973 and its share increased to 75 per cent by 1975. The importance of petroleum exports to Malaysia has also increased in recent years: in 1974 it formed 7 per cent of the total exports, but it presently occupies the second most important position next only to natural rubber. Malaysia exports almost the entire crude petroleum output which has a low sulphur content, and imports oil from the Middle East to meet its domestic requirements.

Raw materials, both agricultural and mining, form a substantial proportion of ASEAN exports. This is so more for Malaysia than for others. Malaysia is the world's largest producer of natural rubber, palm oil and tin. These three commodities together account for more than one-half of Malaysia's total exports. These three commodities are also of considerable export interest to Indonesia, although their relative importance has been substantially eroded away by the recent oil bonanza. Natural rubber and tin also represent important exports of Thailand, whose two most important exports, however, are rice and maize (since 1974). Sugar, coconut oil and copper are the three most important exports of the Philippines, jointly accounting for about 58 per cent of its total exports in 1974. As mentioned earlier, Singapore's stake in primary commodity exports in processed or semi-processed forms, stems from the nature of its entrepot trade, thanks to the existence of a sizable "hinterland" provided by its ASEAN neighbours.

The share of manufactures in ASEAN exports is considerably small, except in the case of Singapore. But, the relative importance of manufactured exports has been growing remarkably in recent times. ASEAN countries have been actively promoting the export of manufactures, not only because the demand for traditional exports is notoriously inelastic and unstable but also because import-substituting industrialization in these countries had run into serious difficulties. Indonesia, however, remains very far behind its ASEAN partners in the export of manufactures, since its manufactured exports form only a negligible portion of its total exports. Apparently, Indonesia's industries are not competitive enough to venture out of the sheltered domestic market. In this regard, Malaysia has done much better, with its manufactured

/Table 3.

TABLE 3

PRINCIPAL EXPORTS OF INDIVIDUAL ASEAN COUNTRIES
(AS PERCENTAGE OF TOTAL EXPORTS)

Country and Commodity	1971	1971	1972	1973	1974
Indonesia:					
Crude Petroleum and Petroleum Products	40.3	38.7	51.4	50.1	70.2
Wood	9.4	13.1	12.9	17.9	9.8
Rubber	22.8	18.0	10.6	12.2	6.5
Tin	4.9	4.2	3.6	2.9	2.3
Palm oil	3.2	3.6	2.3	2.2	2.1
Coffee	6.2	4.5	4.3	2.4	1.3
Total 6 exports	86.8	82.1	85.1	87.7	92.2
Malaysia:					
Rubber	33.4	29.1	26.7	34.0	28.3
Tin and tin-inconcentrates	19.6	18.1	19.0	12.2	14.9
Palm oil	5.1	7.6	7.5	6.3	10.7
Saw logs	12.5	12.8	12.2	13.4	10.1
Sawn Timber	3.9	3.8	5.7	7.6	4.3
Petroleum, crude and partly refined	3.9	7.8	4.6	3.6	6.6
Total 6 exports	78.4	79.2	75.7	77.1	74.9
Philippines:					
Sugar (Contrifugal)	17.7	18.8	19.0	15.6	28.1
Coc nut oil	9.0	9.1	7.6	8.5	14.5
Copper Concentrates	17.4	16.4	17.2	16.4	15.0
Logs and lumber	23.5	20.0	15.7	19.2	9.4
Copra	7.5	10.1	9.9	9.4	5.3
Total 5 exports	75.1	74.4	69.4	69.1	72.3
Singapore:					
Petroleum products	17.2	21.1	18.8	15.2	25.8
Crude rubber	24.4	17.6	13.7	18.3	14.3
Fixed vegetable oil	2.9	3.8	2.4	1.9	2.5
Clothing except fur	2.0	2.6	3.6	3.6	2.2
Sawn timber	2.3	1.8	2.1	3.5	1.5
Total 5 exports	48.8	46.9	40.6	42.5	46.3
Thailand:					
Rice	17.0	16.8	19.8	11.2	19.5
Maize	12.6	12.6	8.8	9.2	12.1
Rubber	15.1	11.0	8.6	14.2	10.0
Tin concentrates and metal	11.0	9.1	7.4	6.3	6.2
Teak	1.1	1.1	0.9	1.3	0.8
Total 5 exports	56.8	50.6	45.5	42.2	48.6
Total exports	100.0	100.0	100.0	100.0	100.0

Source: ADB, Key Indicators, April 1976.

/exports

exports accounting for 17 per cent of its total exports in 1976. The Philippines is not too far behind Malaysia in this respect as indicated by the fact that its manufactures constituted about 14 per cent of its total exports in 1977. Singapore has been most successful of all ASEAN countries in the export of manufactures which accounted for 59 per cent of the total exports of Singapore in 1975. Thailand is another ASEAN country which has been fairly successful in exporting manufactured goods which formed as much as 37 per cent of the Thai exports in 1976.

ASEAN countries also exhibit somewhat similar patterns of imports. The composition of imports has however undergone significant changes, reflecting the structural transformation which ASEAN economies have experienced in the post-war era. Food imports account for a large proportion of the total imports for most ASEAN countries, Thailand being a notable exception. However, the share of food imports has tended to fall noticeably (table 4), owing to the food self-sufficiency programmes adopted by the food deficient countries. The share of consumption goods in total imports has also fallen substantially in all ASEAN countries (table 4) due to import-substituting industrialization undertaken by ASEAN countries. It is also significant to note that ASEAN economies have become increasingly dependent on the imports of intermediate and capital goods, because of the high import content of the manufacturing industries in the ASEAN region.

The pattern of ASEAN imports has, thus, been affected strongly by the domestic policies of the individual member countries. The escalated tariff structures, for example, have introduced distortions which have encouraged the imports of intermediate and capital goods at the expense of consumer goods. It is also true that external forces have influenced the composition of ASEAN imports considerably. Two important developments may be singled out: one is the rationalization of industries in advanced countries in response to the changing international pattern of comparative advantage, which has affected ASEAN's imports of certain categories of goods, and the other is the recent increase in petroleum prices, which has also made a serious impact on the import structure of the oil-deficient countries, namely the Philippines, Thailand and Singapore.

B. DIRECTION OF TRADE

In addition to the high commodity concentration of exports, there is also a high geographical concentration not only of markets for the exports but also of sources of imports of ASEAN countries. The most

/Table 4.

TABLE 4

COMPOSITION OF IMPORTS
(PERCENTAGE DISTRIBUTION)

	Food	Other Consumption Goods	Materials Mainly for Consumption Goods	Material Chiefly for Capital Goods	Capital Goods
Philippines					
1955	18.7	28.6	16.5	11.4	24.8
1960	15.0	12.0	19.2	7.7	46.1
1965	19.3	8.0	23.4	5.5	43.8
1970	9.5	5.8	29.4	9.7	45.7
1973	12.6	9.9	32.5	6.4	38.7
Thailand					
1955	8.5	40.3	11.3	9.2	30.7
1960	8.2	31.0	12.1	11.1	37.6
1965	5.5	25.8	18.2	7.4	43.1
1970	4.0	18.8	23.0	7.8	46.3
1973	3.3	13.2	31.9	8.4	43.2
Indonesia					
1955	9.6	29.5	22.8	9.9	28.2
1960	23.1	21.8	23.9	4.1	27.1
1965	20.8	15.2	15.6	9.9	38.5
1970	15.5	11.5	15.6	9.8	47.7
1971	9.9	10.8	15.1	11.3	52.9
1973*	-	23.8	-	35.7	40.5
Malaysia					
1960	26.0	21.4	17.1	14.7	20.9
1965	23.5	18.0	19.2	9.0	30.3
1970	19.1	15.9	19.2	9.6	36.2
1972	17.6	14.5	19.1	8.7	40.1
Singapore					
1960	16.6	22.5	42.0	8.7	10.2
1965	17.5	27.0	27.7	8.1	19.7
1970	12.6	24.4	25.5	7.9	29.6
1973	10.3	19.1	28.3	6.0	36.4

Source: ESCAP (ECAFE): Statistical Yearbook for Asia and the Pacific 1974, various issues and Economic Bulletin for Asia and the Far East, various issues. /As presented in John Wong, The ASEAN Economies: The Need for Another Development, (mimeographed) UN ESCAP, Bangkok, 1977, Table 1/.

Note: *"Consumption goods" includes food; and "material" for both consumption and capital goods.

/striking

striking feature in ASEAN's external trade relations is its heavy dependence on the industrialized market economies. Thus, the major trading partners of ASEAN countries, in order of importance, are Japan, the United States and the European Economic Community (EEC) which have jointly accounted for more than two-thirds of ASEAN's exports and more than one-half of its imports during the period 1970-1974, as shown in table 5.

Japan dominates ASEAN's exports and imports as indicated not only by the large share of Japan in the external trade of ASEAN countries but also by the high rate of growth of the trade between ASEAN and Japan. Thus, during 1970-1974, ASEAN's exports to Japan grew at the annual rate of 34 per cent while its imports from Japan increased at the rate of 24 per cent per annum. The former exceeds the growth rate of ASEAN exports to the world (30 per cent), to the United States (26 per cent) and to the EEC (23 per cent), whereas the latter is a little lower than the growth rate of ASEAN's imports from the world (26 per cent) and from the United States (25 per cent).[2/] Japan's share of ASEAN's exports increased by more than 4 per cent, while the share of the United States and that of the EEC fall by 3 per cent and 5 per cent respectively between 1970 and 1974. In the case of the imports of ASEAN, however, the share of Japan has declined marginally along with that of the United States and the EEC during the same period (see table 5).

There are very little intercountry differences within ASEAN in the direction of trade, as attested by statistical evidence.[3/] About three-fourths of Indonesia's exports are accounted for by Japan (53 per cent) and the United States (21 per cent). More than half of Malaysia's exports go to Singapore (22 per cent), Japan (17 per cent) and the United States (14 per cent). About two-thirds of the Philippines' exports are absorbed by Japan (38 per cent) and the United States (29 per cent). The three most important markets for Singapore's exports, in order of importance, are Malaysia (15 per cent), the United States (14 per cent) and Japan (12 per cent) which jointly account for roughly 40 per cent of the total.

/Table 5.

2/ Mukda Sunkool, "The Current Economic Conditions of ASEAN Countries"' in Seiji Naya and Vinyu Vichit-Vadakan (eds.), ASEAN Co-operation in Trade and Trade Policy, Volume I, UNAPDI, Bangkok, 1977, pp. 62-63.

3/ National Economic and Development Authority (NEDA), Comparative Information on the Member Countries of the Association of Southeast Asian Nations, Manila, pp. 19-25. Percentages are for the year 1974 for all countries except the Philippines (1975).

TABLE 5

ASEAN: GEOGRAPHICAL DISTRIBUTION OF IMPORTS AND EXPORTS, 1970 AND 1974
(PERCENTAGE DISTRIBUTION)

ASEAN-Member Countries		Geographical Distribution of ASEAN's Imports						Geographical Distribution of ASEAN's Exports					
		Japan	U.S.	EEC	ASEAN	Others	World	Japan	U.S.	EEC	ASEAN	Others	World
Indonesia:	1970	29.4	17.8	21.6	7.6	23.6	100.0	46.5	13.3	18.0	21.0	1.2	100.0
	1974	30.3	16.0	18.3	9.2	25.2	100.0	56.1	20.7	6.5	3.0	13.7	100.0
Malaysia:	1970	17.5	8.6	23.3	16.0	34.6	100.0	19.9	12.8	18.6	23.8	24.9	100.0
	1974	22.0	9.6	21.0	14.5	32.9	100.0	18.4	14.5	19.3	21.5	26.3	100.0
Philippines:	1970	30.6	20.4	15.4	5.2	18.4	100.0	41.2	38.7	7.4	1.2	13.5	100.0
	1974	26.8	24.1	12.2	2.3	34.6	100.0	37.4	30.2	10.5	1.9	12.0	100.0
Singapore:	1970	19.3	10.8	15.6	21.0	33.3	100.0	10.4	9.7	14.8	21.5	43.8	100.0
	1974	17.8	13.2	16.5	17.2	35.3	100.0	14.0	12.5	16.5	15.3	41.7	100.0
Thailand:	1970	37.4	14.9	22.6	3.2	21.9	100.0	26.2	13.7	19.3	15.3	25.5	100.0
	1974	31.4	12.6	13.5	2.9	39.6	100.0	26.5	7.1	16.6	18.2	31.8	100.0
ASEAN:	1970	25.3	15.1	19.0	14.8	25.8	100.0	29.5	25.0	15.8	17.3	12.4	100.0
	1974	23.8	14.5	15.9	11.2	34.6	100.0	34.0	21.8	10.5	11.1	22.6	100.0

Source: Estimates from IMF, Direction of Trade, Annual 1970-1974 by Nukda Sunkool of UN APDI, Bangkok.

Note: Imports of Countries of Destination are used as the ASEAN Countries' Exports.

/As

As in the case of Singapore, Thailand's export trade is somewhat less concentrated, with Japan topping the list (25 per cent), followed by Singapore (9 per cent) and the United States (8 per cent).

The pattern is similar for imports as well. Nearly half of Indonesia's imports come from Japan (30 per cent) and the United States (16 per cent). Malaysia's main sources of imports are Japan (22 per cent), the United States (10 per cent) and the United Kingdom (9 per cent). Japan and the United States share between themselves about half of the Philippines' imports, 28 per cent and 22 per cent, respectively. Japan, the United States and Malaysia are the three most important sources of imports for Singapore, with Japan accounting for 18 per cent, and the United States and Malaysia, about 13 per cent each. In the case of Thailand as well, Japan and the United States dominate the import trade: about one-third of Thailand's imports comes from Japan, while the United States accounts for about 13 per cent.

An important observation is that intra-regional trade forms only a small proportion of ASEAN's total trade. Moreover, the share of intra-regional trade has fallen from 15 per cent in 1968[4/] to 12 per cent in 1974 (table 6). Singapore figures prominently in this context, as its trade with its ASEAN partners forms 17 per cent of its global trade. Intra-ASEAN trade accounts for a sizable proportion of Malaysia's total trade (14 per cent). For other ASEAN countries, especially the Philippines, intra-regional trade is of very little importance. Table 6 brings out the close trade relations between Singapore and Malaysia and between Singapore and Indonesia. Nearly 40 per cent of the intra-ASEAN exports consist of products meant for processing, crude rubber being the most important commodity. The other products of major importance in the intra-ASEAN trade are petroleum and foodstuffs, while manufactures occupy a relatively low position.

The existing pattern of trade relations of ASEAN is thus heavily skewed towards the industrial economies, especially Japan and the United States. The close trade relations between ASEAN and the industrialized countries are based on economic complementarity. In other words, there is a "double coincidence" of wants in the sense that ASEAN has what the industrial countries require and vice versa. It is the conspicious absence of such complementarity within the economic structure of ASEAN which

/Table 6.

4/ United Nations, Journal of Development Planning, No. 7, New York, 1974, table 30, p. 36.

TABLE 6

SUMMARY OF INTRA-ASEAN TRADE, 1974
(US$ MILLION)

Importers / Exporters	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total ASEAN	Deficits(-) or Surplus (+) on Trade with ASEAN
Indonesia	-	95.36	4.90	142.00	5.42	247.68	-97.53
Malaysia	11.90	-	28.80	1,074.70	28.12	1,143.52	542.30
Philippines	11.80	18.36	-	22.90	4.15	57.21	-21.19
Singapore	248.30	342.25	28.70	-	54.75	674.00	-802.00
Thailand	73.10	145.25	16.00	236.40	-	470.75	377.56
Total ASEAN	345.10	601.22	78.40	1,476.00	92.44	2,593.16	-
World	3,754.10	4,154.60	344.00	8,592.80	3,215.75	23,161.25	
Intra-ASEAN trade as % of total world trade	9.19	14.47	2.27	17.17	2.87	11.19	

Source: Estimates by Mukda Sunkool of UNAPDI, based on IMF, Direction of Trade Annual 1970-1974.

/explains

explains the low volume of intra-regional trade. ASEAN economies are competitive rather than complementary with each other. Years of specialization in primary production and prolonged import-substitution in manufacturing have eliminated the scope for intra-regional exchange of goods in the ASEAN region.

C. GROWTH AND INSTABILITY OF TRADE

ASEAN's external sector has always been the most dynamic and buoyant of all sectors. Exports from the ASEAN region have grown at an average annual rate of 39 per cent during 1970-1974, which is extremely impressive if compared with annual average growth rate of a little more than 4 per cent achieved in the 1960s. The phenomenal export growth of over 70 per cent was recorded in 1973-1974, thanks to the sharp rise in commodity prices in general and oil prices in particular. Indonesia, as an oil-surplus country, benefited most from the 1970-1974 export boom. Export growth was, however, negative for ASEAN as a whole during 1974-1975 when the value of exports fell by nearly 12 per cent owing to adverse market conditions abroad. It is of interest to note that during 1970-1975 the export performance of ASEAN as a group was better than the average performance of the world as a whole and that of the developed countries as a group (table 2).

ASEAN imports have also been growing at the annual rate of 27 per cent during 1970-1975. The rate was higher in 1970-1974, i.e. 32 per cent. All these compare favourably with those of the developed and developing countries as a group and of the world as a whole. The rapid expansion of imports in the ASEAN region can be attributed to (a) increased demand for imports associated with rapid economic growth, and (b) inflationary increases in import prices.

Most ASEAN countries frequently if not persistently run into trade deficits. Indonesia and Malaysia are the only exceptions. Current account deficits are even more common (see table 7). Fortunately, the foreign capital flows into ASEAN countries have been substantial enough to more than offset the current account imbalances.

The growth of exports and imports has never been steady for any ASEAN country. ASEAN exports and imports have exhibited considerable fluctuations, as shown by the value, volume and unit value indices given in table 8. The terms of trade of ASEAN countries and the purchasing power of ASEAN exports have also been extremely volatile.

/Table 7.

TABLE 7

ASEAN: TRADE AND BALANCE OF PAYMENTS
(US$, MILLION)

	1965	1970	1974	1975
Indonesia:				
Trade balance	24	57	2,125	-
Current account	-247	-310	91	-
Long-term capital account	246	338	998	-
Balance of payment	-30	-23	688	-
Malaysia:				
Trade balance	170	349	388	441
Current account	58	8	-273	-186
Long-term capital account	120	96	470	560
Balance of payment	97	13	196	63
Philippines:				
Trade balance	-39	-26	-448	-1,196
Current account	38	-48	-207	-922
Long-term capital account	-91	130	227	816
Balance of payment	-73	46	625	-17
Singapore:				
Trade balance	-248	-895	-2,352	-2,483
Current account	-32	-572	-1,207	-749
Long-term capital account	27	140	649	651
Balance of payment	10	184	295	410
Thailand:				
Trade balance	-117	-462	-368	-506
Current account	-53	-250	-64	-441
Long-term capital account	80	109	379	256
Balance of payment	30	-82	476	-12
ASEAN Total				
Trade balance	-210	-977	-655	-
Current account	-236	-1,172	-1,660	-
Long-term capital account	382	813	2,723	-
Balance of payment	39	138	2,280	-

Source: IMF, International Financial Statistics, various issues.

/Table 8.

TABLE 8

ASEAN: INDICES OF VALUE, UNIT VALUE AND QUANTUM OF EXPORTS AND IMPORTS, AND THE TERMS OF TRADE AND PURCHASING POWER OF EXPORTS, 1960-1975

			1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Indonesia:	Exports:	Value	66	72	66	83	67	69	68	81	65	74	100	111	160	280	670	523
		Unit value	108	95	92	90	90	94	97	91	92	97	100	107	111	157	396	353
		Quantum	63	76	72	70	74	73	70	68	71	76	100	105	145	184	169	137
	Imports:	Value	58	80	65	52	68	70	53	64	72	78	100	110	156	235	386	500
		Unit value	90	90	90	92	93	94	95	96	95	96	100	108	117	141	178	192
		Quantum	64	88	72	57	73	74	56	67	76	82	100	102	133	166	218	260
	Terms of trade		120	105	102	98	97	99	102	95	96	102	100	99	94	112	223	199
	Purchasing power of exports		75	80	73	69	72	73	71	64	68	77	100	103	137	205	377	272
Malaysia:	Exports:	Value	54	49	49	50	52	58	58	54	79	97	100	98	105	182	258	238
		Unit value	126	108	103	99	103	109	104	93	90	106	100	96	98	149	262	221
		Quantum	43	45	47	50	50	53	56	58	88	92	100	102	107	123	98	108
	Imports:	Value	47	48	54	56	56	57	58	57	81	83	100	103	116	176	300	282
		Unit value	98	89	89	91	93	94	94	96	94	94	100	109	117	145	192	201
		Quantum	53	55	60	61	60	61	61	59	85	87	100	94	99	122	157	140
	Terms of trade		140	120	116	109	111	116	110	96	95	111	100	87	84	103	137	118
	Purchasing power of exports		60	54	55	55	55	61	61	56	83	102	100	90	90	126	135	118
Philippines:	Exports:	Value	50	47	50	65	69	71	77	78	85	86	100	105	104	161	261	197
		Unit value	71	66	66	75	78	80	84	87	96	97	100	95	91	134	250	208
		Quantum	71	72	76	85	88	88	92	90	88	89	100	111	113	120	104	95
	Imports:	Value	52	53	51	53	68	70	74	91	100	98	100	109	115	138	267	267
		Unit value	89	88	88	90	92	93	94	96	95	95	100	109	118	142	217	229
		Quantum	58	60	58	59	74	75	80	95	104	102	100	100	98	97	123	115
	Terms of trade		80	74	75	85	85	86	90	90	100	101	100	87	78	94	115	91
	Purchasing power of exports		56	54	57	72	75	76	82	81	89	90	100	96	88	113	120	86
Thailand:	Exports:	Value	57	67	65	66	84	98	97	96	92	100	100	117	152	216	354	338
		Unit value	105	99	102	99	97	99	104	108	113	110	100	96	103	162	267	227
		Quantum	55	68	64	66	86	88	93	89	82	91	100	121	147	133	133	149
	Imports:	Value	35	38	42	47	53	60	94	82	89	99	100	100	115	158	243	247
		Unit value	89	89	89	90	91	93	94	96	95	95	100	109	117	140	206	219
		Quantum	40	42	47	52	58	64	100	85	93	104	100	92	98	113	118	113
	Terms of trade		118	111	115	110	108	106	111	112	118	115	100	89	88	116	129	104
	Purchasing power of exports		65	76	73	73	91	94	103	100	97	104	100	108	130	154	172	155

Source: UNCTAD estimates. See UNCTAD, Handbook of International Trade and Development Statistics. 1976. Singapore's estimates are not available.

The heavy dependence of ASEAN countries on the developed market economies has rendered ASEAN's export performance highly subject to the vagaries of international economic cycles. The amplitude of fluctuations in ASEAN's exports has been accordingly very high. Given the inelastic demand and supply of primary commodities, the impact of any disburbance in international economic situation would be on commodity prices rather than on volume. Thus, the problem of export instability is essentially one of unstable commodity prices. The severity of the instability problem of course varies between commodities and between countries, so that generalizations are difficult to make. Nevertheless, the economic implications of such export instability to the open economies of ASEAN are intuitively serious.

During the period 1968-1975, Indonesia's exports were most unstable and Thailand's exports least unstable of all, as shown by the instability indices in table 9. There are however considerable variations between commodities. For example, the instability index ranges from 7.9 to 89.4 for Indonesia and from 10.3 to 313.5 for Thailand. For a given commodity, the instability index differs between countries, owing to intercountry differences in demand and supply conditions. The degree of instability seems to depend upon the extent of export concentration and the size of market share.

Crude petroleum and petroleum products account for 69 per cent of Indonesia's export instability. Natural rubber, and tin contribute as much as 50 per cent to Malaysia's export instability. Raw sugar and coconut oil account for 50 per cent of the export instability in the Philippines. Only 30 per cent of Singapore's export instability is attributable to natural rubber and residual fuel oils. In Thailand, 55 per cent of export instability is accounted for by fluctuations in the exports of raw sugar, rice and natural rubber.[5/]

It is not just the exports which are unstable; ASEAN imports also do fluctuate. Imports tend to move with exports, since the import demand is affected considerably by the export performance. Nevertheless, imports are relatively less volatile not only because import prices are generally more stable than export prices but also because ASEAN economies are much more dependent on imports from the developed industrial countries than the other way around.

/Table 9.

5/ Wisarn Pupphavera and Seiji Naya, "Principal Commodity Exports and Earnings Instability of ASEAN Countries", (unpublished), tables 4.1 to 4.5.

TABLE 9

THE INDEX OF EXPORT EARNING INSTABILITY OF PRINCIPAL COMMODITIES OF ASEAN COUNTRIES, 1968-1975

SITC	Commodity	Index of Export Earning Instability				
		Indonesia	Malaysia	Philippines	Singapore	Thailand
0313	Shrimp					28.93
0422	Rice, glazed or polished				30.39	40.76
044	Maize, unmilled					27.61
0459	Sorghum					17.11
05173				41.86		
053				15.75	11.03	
0542	Leguminous vegetable dry					10.27
0554	Tapioca					10.36
0611	Raw sugar			36.63		313.54
0711	Coffee green, roasted	9.65			18.53	
0741	Tea	18.48				
0751	Pepper and pimiento	25.82[1]	13.48		14.33	
121	Tobacco leaf	35.86		17.71		14.11
2212	Copra	45.27		18.66		
2311	Natural rubber	23.87	28.85		30.64	31.84
2423	Logs	89.39	28.13	20.22		
2433	Lumber		36.85	35.77	51.86	19.79[2]
2641	Jute and kenaf					19.42
2655	Manila fibre			42.59		
2785	Fluorites					25.42
2813	Iron ores		65.30	23.01		
2831	Copper ores			31.92		
2832	Nickel ores	29.35				
2833	Bauxite	7.87				
2836	Tin ores	29.92				
3311	Crude petroleum	46.75				
3321	Gasoline	60.84[3]			41.29	

/Table 9 (continuec

TABLE 9 (CONTD.)

SITC	Commodity	Index of Export Earning Instability				
		Indonesia	Malaysia	Philippines	Singapore	Thailand
3322	Kerosene				37.23	
3323	Distillate fuels				43.89	
3324	Residual fuel oils				40.28	
3325	Lubricating oils				38.49	
4222	Palm oil	28.52	26.26		35.48	
4223	Coconut oil		76.77	47.39		
4224	Palm kernel oil		117.85			
6312	Plywood			37.17[4]	37.15	
6522	Woven cotton, bleached				17.24	
6535	Woven synthetic fabrics				22.10	
6612	Cement					52.40
6871	Tin alloys ironwrought	55.33	19.40			18.91
7184	Construction and mining machinery				22.72	
7242	Radio broadcast receivers				76.99	
7293	Transistors, valves, etc.				108.72	
7299	Electrical machinery				141.26	
7328	Motor vehicle parts				17.76	
8411	Textile clothes, not knit				34.82	
8414	Clothing accessory, knit				26.58	
	Miscelleneous	21.59	19.05	14.71	17.81	21.82
	Simple average	35.22	42.97	29.34	39.76	43.47
	Total export earning excluding petroleum	24.47				
	Total export earning	33.91	19.71	20.07	21.24	19.18

Source: Wisarn Pupphavesa and Seiji Naya, "Principal Commodity Exports and Earnings Instability of ASEAN Countries" (unpublished), Table 3.

Notes: 1. SITC 075.
2. Teak only.
3. SITC 332.
4. SITC 631.

/II.

II. ASEAN TRADE REGIMES

As it was seen earlier, ASEAN countries are heavily dependent on the external markets for their primary products. ASEAN countries have relied largely on domestic policy measures to subdue the problem of instability of primary exports, and have undertaken extensive diversification of exports, rationalization of supplies of primary products in addition to the imposition of progressive export taxation. Export diversification, in general, and the emergence of manufactured exports, in particular, have undoubtedly reduced the risks by distributing the eggs in several baskets, while supply rationalization has tended to improve supply responses to price changes. The progressive export taxes have helped ameliorate the impact of export fluctuations on the domestic economies in an anti-cyclical fashion.

Since the phenomenon of export instability is essentially an international one, it is hardly amenable to national control measures. Therefore, ASEAN countries have resorted to international commodity agreements. Thus, Indonesia, Malaysia, Singapore and Thailand have been active participants in international tin agreements, while the Philippines has been a signatory to the international sugar agreements. There had been a number of abortive attempts at international rubber control in the post-war era. In November 1976, five members of Natural Rubber Producing Countries (ANRPC) - Malaysia, Indonesia, Thailand, Sri Lanka and Singapore - signed the Agreement on International Rubber Price Stabilization Scheme. These issues will be taken up in the next two sections.

The focus of this section will be on trade policies which have been designed to transform the economic base gradually from agriculture to industry. The traditional trade policies of ASEAN countries, which were rather liberal in the past, have been modified substantially in order to stimulate industrial production for import substitution.

The degree of protection given to the domestic industries also vary considerably between countries ranging from the extremely low level of protection in Singapore to the rather high levels in Indonesia and the Philippines. One generalization is possible: the bigger the domestic market, the greater the tendency for the trade policies to be restrictive. Singapore, for instance, cannot afford to be introspective in its trade policy since its domestic market is too small for extensive import substitution.

/Although

Although it will not be difficult to identify the commonalities in the trade policies of ASEAN countries, it will be more revealing to look at individual country positions. For, such an analysis will provide an insight which in turn will allow us to draw inferences for the future.

A. INDONESIA

The Indonesian economy is an open one in the sense that its economic growth has been largely export-led. Indonesia's exports, as mentioned earlier, consist of primary products. Extractives, i.e. petroleum, minerals and lumber, account for 80 per cent of the total exports. Petroleum of course tops the list, as it formed 67 per cent of Indonesia's exports in 1977.[6/] In spite of this openness in terms of primary exports, the Indonesian economy has been somewhat introspective in its trade policy.

Indonesia is well endowed with a diversity of natural resources and a large population. The existence of a vast domestic market has led Indonesia to adopt restrictive trade policies aimed at national self-sufficiency. Accordingly, Indonesia has pursued an autarchic trade policy insofar as consumer goods are concerned. Ironically, however, industrialization in Indonesia has led to severe balance of payments problems, since its manufacturing sector is heavily dependent on the imports of intermediate and capital goods.

Import substituting manufacturing production in Indonesia has been sustained by heavy tariff protection and non-tariff barriers. Although no tariff studies on Indonesia are readily available, the Indonesian tariff regime appears to be very restrictive as in the case of the Philippines. But, Indonesia's non-tariff barriers seem to be even more formidable.

Indonesia's tariffs escalate steeply, with tariff rates rising from earlier to later stages of fabrication in the production process. Thus, the Indonesian tariff rates are much higher for final consumer goods than those for intermediate or capital goods. But, the Indonesian tariffs are scarcely prohibitive. It is the non-tariff barriers which effectively put off the imports of consumer goods into Indonesia. Non-tariff barriers in Indonesia range from quantitative restrictions to cumbersome custom regulations.

/Intuitively

6/ Douglas S. Paauw, "The Indonesian economy in the 1980s", United Nations, ESCAP (unpublished), table 5, p. 19.

Intuitively, effective rates of protection for Indonesia must be rather high, although no such estimates are presently available. Since imported inputs are admitted at low or zero tariff, the effective rates would be much higher than the nominal rates. Besides, the real cost of imported inputs would be much higher than what the manufacturers actually pay, since the Indonesian currency had remained overvalued for a long time. Market distortions caused by the Indonesian trade policies are thus likely to be substantial so much so that value added at world prices might well be negative for many industries.

The restrictive trade policies have thus provided industries in Indonesia with a captive market, insulated from foreign competition. As a result, industries in Indonesia have remained inefficient and uncompetitive. The trade policies of Indonesia have thus encouraged manufacturing production for the domestic market with an unmistakable bias against exporting. The oil bonanza of the 1970s has rendered Indonesia's balance of payments so favourable that there has been no pressure to re-orientate its industries to be outward-looking. Such a pressure would come eventually from within, for the import substitution phase seems to have reached saturation points for many final consumer goods. Moreover, import substitution based on imported inputs and borrowed technology has failed to create domestic linkages, as a result of which labour-intensive activities have not developed as much as they should have. Indonesia may therefore be compelled by domestic forces in the long run to adopt trade policies which would be consistent with its factor endowment pattern. The recent 33.6 per cent devaluation of the Indonesian rupiah in November 1978 is indicative of such a policy re-orientation.

3. MALAYSIA

Prior to Independence in 1957, the domestic market of Malaya was largely unprotected, and indeed until the 1960s, tariffs served mainly revenue purposes. The bulk of the trade had also been subject to Commonwealth Preference. Malaya then represented one of the most open economies of the world with heavy reliance on primary exports and liberal imports of manufactures and other goods mainly for consumption purposes. Indeed, the Malaysian economy still remains open to a considerable extent.

/This

This state of affair began to change with the classification of the tariff schedule in 1959 which also terminated the Commonwealth Preference for several items.[7/] The Tariff Advisory Committee was established in the same year. The Committee's recommendations dealt only with "pioneer" industries and by the end of 1962, about 25 tariffs were in existence for pioneer industry products. The Tariff Advisory Board replaced the Committee in 1962. The Board[8/] was instrumental in imposing modest protective duties on more than 200 imported items by 1963 when tariffs averaged 15 per cent and rarely exceeded 25 per cent, while many products had no tariffs at all. Although tariffs were raised in many cases and extended to several items especially after 1965, the Malaysian tariffs on the whole appears to be rather mild in comparison with most developing countries. Import quotas have been imposed in addition to tariffs, but such quantitative restrictions are applied neither stringently nor widely. Import quotas have been confined to few items, mainly as an anti-dumping measure.

There is no doubt that industrialization in Malaysia was facilitated to a considerable extent by the protective system, although the protective measures were rather mild in nominal terms by modern standards. While the nominal rates of protection reflect the extent of protection given to the final products, which influences consumers decisions, the effective rates of protection show the level of protection given to the production process, which affect investors' decisions and hence resource allocation. Effective protection, defined as the percentage excess of value added at domestic prices over that at world market prices, may be calculated using either the Balassa approach which treats non-traded inputs as traded inputs with zero tariffs or the Corden approach which treats non-traded inputs as primary factors. Degree of bias against exporting is shown by the percentage excess of domestic value added over that obtainable in exporting.

/Two

7/ The Commonwealth Preference disappeared altogether in 1967.

8/ Tariff Advisory Board has now become defunct, its role being taken over by the Tariff Unit in the Federal Industrial Development Authority (FIDA).

Two independent studies of effective protection in peninsular Malaysia based on the Survey of Manufacturing Industries for the years 1965 and 1970 are available.[9/] Table 10 presents the nominal and effective rates of protection for 1965 and 1970. A more recent study[10/] gives the structure of protection in peninsular Malaysia in 1973 for 64 industries, defined at 3-digit level of industrial classification, based on 1970 input-output table. Table 11 presents the results of this study.

It can be seen from these tables that although the nominal protective rates have been rather low, the average effective rates have been significantly high. It is clear that Malaysia's protection system has undergone substantial changes in both nominal and effective terms. The average nominal rate for manufacturing increased from 13 per cent in 1965 to 18 per cent in 1970; the average effective rate for manufacturing increased from -4 per cent in 1965 to 44 per cent in 1970, and subsequently to 55 per cent in 1973. Wide variations in both the nominal and effective rates between major industries can also be easily observed. Generally speaking, the effective rates exceed the nominal rates, apparently because the tariffs on inputs were much lower than those on final products. In the case of tobacco products, however, the high nominal rate of protection had been neutralized to a large extent by high tariffs on material inputs, yielding rather low level of effective protection. Rubber products, taxtiles, transport equipment, beverages, non-metallic mineral products, electrical machinery and chemical products provide outstanding examples of industries enjoying relatively high levels of effective protection.

There are thus ample evidence of distortions in the price system and bias in resource allocation within the manufacturing sector. It is in this sense that protective system encouraged certain industries by rendering them relatively attractive. It may therefore be concluded that protection played a significant role in stimulating manufacturing

/Table 10.

9/ J.H. Power, "The structure of protection in West Malaysia" in B. Balassa (ed.), The Structure of Protection in Developing Countries, John Hopkins, Baltimore, 1971; and Mohamed Ariff, "Protection for Manufactures in Peninsular Malaysia", Hitosubashi Journal of Economics, vol. 15, No. 2, February, 1975.

10/ Malaysia, Economic Planning Unit (EPU), an unpublished study.

TABLE 10

PROTECTION FOR SELECTED MANUFACTURES IN PENINSULAR MALAYSIA:
COMPARISONS BETWEEN 1965 AND 1970
(PERCENTAGE)

Industry	Nominal Protection		Effective Protection*		Bias Against Exporting**	
	1965	1970	1965	1970	1965	1970
Crude Coconut Oil Mills	-5	-5	-10	-36	...	...
Pickles & Sauces	20	20	34	33	103	101
Sago & Tapioca Factories	0	0	-2	-2	...	0
Large Rice Mills	0	0	-2	-2	0	0
Biscuit Factories	7	13	1	19	39	96
Meehoon & Noodles	10	12	132	85	207	67
Spices & Curry Powder	10	20	63	131	86	432
Coffee Factories	5	6	-27	-64	36	41
Animal Feeds	0	0	-6	-3	0	0
Soft Drinks & Carbonated Beverages	31	58	40	114	109	272
Tobacco Products	107	93	10	6	**	**
Textiles	24	25	212	187	5825	199
Footwear	25	40	68	125	153	1358
Clothing Factories	25	25	61	37	**	261
Wooden Boxes, Cases & Crates	19	20	55	64	59	83
Furniture & Fixtures	21	25	67	89	108	160
Paper & Paper Products	15	20	18	73	73	112
Leather & Leather Products	19	25	52	67	205	191
Rubber Products	1	53	-9	199	3	286
Refined Coconut Oil	0	0	-1	-17	0	0
Paints, Varnishes & Lacquers	15	25	49	81	54	107
Soaps, Washing & Cleaning Compounds	0	20	-2	36	...	50
Glass & Glass Products	25	25	57	43	336	69
Iron Foundries	0	0	-3	-2	0	0
Architectural Metal Products	3	12	8	27	12	38
Wire & Wire Products	5	11	23	43	28	64
Tin Cans & Metal Boxes	0	15	-3	82	0	89
Brass, Copper, Pewter & Aluminium Products	19	19	57	57	62	83
Industrial Machinery & Parts	0	6	-6	8	0	14
Motor Vehicle Bodies	0	0	-9	-10	0	0
Plastic Products	22	22	83	81	88	87

Sources: 1965 figures are from J.H. Power, "The Structure of Protection in West Malaysia", in B. Balassa (ed.), The Structure of Protection in Developing Countries, John Hopkins, Baltimore, 1971, Table 9.5, p. 212.

1970 figures are from Mohamed Ariff, "Protection for Manufactures in Peninsular Malaysia", Hitotsubashi Journal of Economics, Vol. 15, No. 2, February 1975.
1970 figures are from Table 3-16.

* Based on the Cordon approach.

** Denotes negative value added in case of exporting.

/Table 11.

TABLE 11

TARIFFS, EXCISE TAXES, EXPORT DUTIES, AND VALUE ADDED SHARES THAT CONTRIBUTE SUBSTANTIALLY TO EFFECTIVE RATES OF PROTECTION, BY INDUSTRY, 1973
(ALL IN PER CENT)

	EPR	Tariff on Output[a]	Excise on Output[b]	Tariff minus Excise	Tariffs on Major Inputs[c]	Export Duties on Major Inputs[d]	Value Added Share in Value of Output[e]
Motor vehicles	(VA-S(E)Q	48	17	31	0, 0	-	14
Electrical appliances	(VA-S%)	41	2	39	17, 37, 37	-	11
Petroleum refining	(VA-S%)	81	32	49	0, 0	-	28
Tyres & rubber products	1011	57	3	54	3, 45, 30, 7	20, 20	36
Breweries & soft drinks	248	147	46	101	36, 39, 10	-	60
Spirits & wine	209	200	22	178	202	-	75
Chocolate & confectionery	136	43	0	43	49, 6, 3	-	35
Fruit & veg. canning	110	57	0	57	4, 114, 39	2, 2	37
Furniture & fixtures	108	35	0	35	0(R), 24, 5	1	31
Cleaning products & cosmetics	92	49	4	46	3, 6	-	57
Other chemical products	86	34	2	32	15, 3, 17, 19	-	33
Plastic products	81 Q	35	0	35	7, 16,	-	44
Meat slaughtering	79	5	0	5	0, 0	5, 5	6
Structural metal products	65	18	0	18	5	1	24
Pottery & glass	64 Q	41	0	41	23, 6	-	63
Tobacco products	54	146	6	140	424, 263	-	35
Footwear	54	42	0	42	18	-	71
Leather products	49 Q	24	0	24	0, 6, 18, 8	-	40
Tools & metal furniture	43	32	0	32	5	-	67
Paints & varnishes	42	23	0	23	0, 7, 4, 39	-	49
Bakeries	41	22	0	22	0, 20, 39	-	41
Knitting mills	39	36	0	36	38	-	65
Motorcycles & bicycles	35 Q	32	16	16	0, 26	-	34
Radio & TV equipment	34	31	3	28	17, 37, 37	-	55
Oils & fats	33	8	0	8	0, 0	10	33
Agriculture (foods)	29	27	0	27	-	-	92
Fish canning	27	8	0	8	0, 0	5, 5	41
Other textiles	27	26	0	26	38, 11	-	82
Business machinery	26	24	1	23	-	-	86
Dairy products	24	15	1	14	2, 4, 6, 4	-	45
Textiles spinning & weaving	22Q	26	0	26	36, 45, 0	-	26
Electrical machinery	22	16	2	14	7, 0, 37, 3	-	32
Other manufactured Products	21	12	0	12	10, 8	-	40
Structural clay products	20	15	0	15	0, 0(R)	-	65
Iron & steel	18	12	0	12	5	-	51
Livestock	17	10	0	10	0, 0, 0	5	81
Indus.chemicals & fertilizer	16 Q	13	0	13	10	-	53

/Table 11 (continued).

TABLE 11 (CONTD.)

	ERR	Tariff on Output[a]	Excise on Output[b]	Tariff minus Excise	Tariffs on Major Inputs[c]	Export Duties on Major Inputs[d]	Value Ad Share i Value of O
Wearing apparel	14	34	0	34	45, 38	-	22
Other non-mat. products	13 R	8	0	15	0,0(R)	-	52
Fabricated metal products	13	10	0	10	5, 19, 16	1, 2	41
Forestry	10 R	10	0	10	-	-	93
Animal feed	10 Q	2	0	2	0,0,0,0,0	6, 5, 5	15
Sawmills & woodmills	10 R	5	1	4	11	15	41
Paper & products	9	7	0	7	0,0(R)	-	33
Grain mills	9 Q	4	0	4	0, 0	-	29
Rubber processing	8	4	0	4	0, 0, 0	-	30
Other wood products	8 R	7	0	7	10	-	71
Shipbuilding	5	7	0	5	0(R), 0	-	80
Mining	4	4	0	4	-	-	100
Fishing	2	4	0	4	-	-	92
Other mining	2	2	0	2	-	-	100
Coconuts	2	2	0	2	-	-	97
Tea	2	2	0	2	-	-	84
Sugar & other foods	1 Q	33	16	20	49	-	31
Drugs & medicines	1	5	9	-5	1	-	67
Rubber	1	2	0	2	10	-	91
Oil palm	1	2	0	2	10	-	88
Metal Mining	-1	2	0	2	-	-	84
Ice factories	-1	2	0	2	39	-	84
Other transport equipment	-1	2	0	2	4, 7, 0	-	54
Industrial machinery	-3	2	0	2	5	1	48
Printing & publishing	-3	4	0	4	0, 6, 13	-	43
Cement & lime	-5 R	2	2	0	39	-	75
Non-ferrous metal (tin)	-8	0	0	0	0	0	20

a. Tariff for an industry is a weighted average of tariffs on all the commodities produced by the indust Weights are production minus exports. Tariffs on commodities are adjusted downward in 9 cases where they are judged to be redundant, and upward in 4 cases where quotas apply and information is availabl on domestic prices relative to world prices.

b. Excise tax for an industry is a weighted average, just as for tariffs.

c. Tariffs on major inputs are tariffs on individual commodities for those inputs to the industry that constitute more than 5 percent of the value of the industry's output. Zero tariffs marked R have bee reduced on the basis of judgements that the nominal tariffs are redundant.

d. Export duties on major inputs are export duties on individual inputs identified as in c. Note that export duties reduce the cost of those inputs for the using industry, compared to what the costs would be at world prices.

e. Value added for an industry is the difference between the value of its output and the value of all it tradable inputs. Values here are at domestic prices including tariffs. The industry's tradable inputs include an allowance for tradable inputs used in those industries that supply non-tradable inputs to it. The industry's value added for the national economy similarly includes an allowance for value added in the industries that supply these non-tradable inputs.

/production

production in peninsular Malaysia.

There are evidence of escalation of tariffs with rates tending to rise from earlier to later stages in the production process. There are also evidence of strong bias against exporting in most cases, suggesting that the manufacturing production in Peninsular Malaysia has essentially been inward-looking, largely due to the nature of protection. Even the exemptions from import duties on imported industrial inputs for export production do not apparently neutralize the bias in favour of production for the domestic market. It may be of interest to observe that for the years 1965-1970 there were no evidence of absolute waste of resources, since negative value added at world market prices were not found for any industry. But, negative value added has been found for motor vehicles, electrical appliances and petroleum products in 1973. Negative value added arises when the cost of tradable inputs at world prices exceeds the value of the final product at world market prices, implying that factors employed in domestic production have added no real value.

Although the system of protection in peninsular Malaysia appears to be less severe than in most developing countries, it has tended to pamper certain industries with an unmistakable bias in favour of import replacements, and penalize export activities. The protective system seems to have assigned only a defensive role to the manufacturing sector. In recent years, however, serious efforts have been made to increase the exports of manufactures. Effective subsidies granted to export-oriented manufacturing activities have increased with the offer of various investment incentives to these industries. Malaysia's structure of protection will also have to be modified so as to encourage the flow of resources away from import-substititing industries toward export-oriented ones.

/C.

C. THE PHILIPPINES

In the post-war era, industrialization in the Philippines assumed mainly the form of fabricating, assembling and processing along import-substitution lines. As a result, the import composition changed gradually in favour of capital goods at the expense of the consumer goods. That the Philippines' import substitution programme had reached a fairly advanced stage is reflected by the fact that imports accounted for less than 5 per cent of the total supply (production plus imports) of manufactured consumer goods in 1965. The Philippines' exports are still dominated by primary products although manufactured exports account for a significant proportion of the total exports (14 per cent in 1977).

The dependence on import substitution as the industrialization strategy obviously required a fairly broad protective structure. Until the 1950s the free entry of American goods considerably weakened the protective effects of tariffs which served mainly revenue purposes. Tariff protection and exchange control were largely responsible for the rapid burst of manufacturing activities in the late 1950s. By 1962, tariffs became the main instrument of protection, with exchange decontrol.

The average nominal protection for import competing goods were 30 per cent, although it had a very wide range - from 1 per cent for dairy products to 252 per cent for jewellery, depicting a considerable degree of escalation in 1965. The average and dispersion of effective protective rates are considerably higher than those of nominal rates, as shown in table 12. The average effective rate of protection was around the region of 60 per cent, twice as high as the nominal rate. It is clear that the protective system has discriminated in favour of consumer goods at the expense of capital goods and intermediate goods while at the same time penalizing exports. Thus, there appears to be a fairly strong escalation of tariffs from lower to higher degrees of fabrication.

Potential rates of effective protection, calculated on the assumption that price differentials reflect nominal rates, exceed the realized rates, based on direct comparisons of world and domestic prices, for non-durable consumer goods. As for intermediate products, protection at higher level of fabrication exceeds that at lower levels in terms of both potential and realized protection.

The general pattern of tariffs thus portray low rates for machinery, moderate rates for intermediate goods and high rates for finished consumer goods. The system thus strongly favours production of finished consumer goods with heavy

/Table 12.

TABLE 12

NOMINAL AND EFFECTIVE PROTECTION FOR MAJOR PRODUCT CATEGORIES IN THE PHILIPPINES, 1965
(PERCENTAGE)

Industry Group	Estimates based on Domestic Coefficients					Estimates Based on Free Trade Coefficients		
	Nominal Protection		Effective Protection					
			Potential	Realized		Nominal Protection	Effective Protection*	
	Potential	Realized	Corden	Balassa	Corden		Balassa	Corden
Agriculture, forestry, and fishing	8	8	0	0	0	31	35	33
Processed food	24	15	77	47	46	37	112	89
Beverages and tobacco	115	10	183	15	15	1	3	3
Mining and energy	4	3	-25	-25	-25	11	-3	-9
Construction materials	59	25	102	50	50	42	67	56
Intermediate products I	14	13	15	16	16	18	39	28
Intermediate products II	57	33	175	88	85	34	76	63
Intermediate products I and II	39	25	85	55	53	22	50	38
Non-durable consumer goods	107	22	287	55	53	32	52	46
Consumer durables	150	68	-232	1,355	1,062	52	96	81
Machinery	27	27	103	112	103	26	27	24
Transport equipment	29	29	75	77	75	16	-4	-3
All industries	27	15	15	8	8	25	47	37
Primary production	7	7	-1	-1	-1	22	18	14
Manufacturing	52	24	128	49	48	29	66	53
Manufacturing less food, beverages, tobacco, and construction materials	53	30	145	70	68	25	48	38

Source: J.H. Power, "The Structure of Protection in the Philippines", in B. Balassa (ed.), The Structure of Protection in Developing Countries, the John Hopkins, 1971.

/dependence

dependence on imported supplies. The pattern of industrial growth and trade in the Philippines clearly reflect this bias.

Negative value added at world market prices have been found for several products including metal furniture, stationery, refrigerators and air-conditioners, photographs and televisions, representing extreme cases of inefficiency. For, imported material inputs cost more than the imported finished products - which may be interpreted as indicating absolute waste of resources.

A more recent study,11/ which gives a time series of effective protective rates in the Philippines for the period 1949 to 1971 (table 13) confirms the previously noted bias of the protective system in favour of consumer goods at the expense of exports, and intermediate and capital goods. It is also pertinent to note that the large differences in the levels of effective protection between commodity groups have continued to exist even after the dismantling of exchange and import controls in the early 1960s.

Manufacturing production in the Philippines has thus been heavily biased in favour of import replacements, especially at higher levels of fabrication, namely finished consumer goods. This inward-looking industrialization has been made possible by the protective system. The process of import substitution which was most rapid in the 1950s slowed down sharply in the 1960s, since the process has already reached the saturation point in many lines of activity, further expansion being constrained by the rate of growth of domestic market itself.

The prolonged import substitution phase of industrialization has sheltered high-cost industries and caused severe balance of payments difficulties, which had forced the Philippines to devalue its pesos in 1965 and again in 1970. In retrospect, it seems that the Philippines had learned the hard way the dangers of import substitution that is supported by a restrictive trade regimes. The need to revitalize its ailing industries was strongly felt in the early 1970s. This has called for a shift in the industrialization and trade strategies. It now appears that many industries in the Philippines have moved into the "export expansion"

/Table 13.

11/ Baldwin (1975), as referred to in Romeo M. Bautista, "Development of trade policies of the Philippines and ASEAN economic co-operation", in Seiji Naya and Vinyu Vichit-Vadakan (eds.), ASEAN Co-operation in Trade and Trade Policy, UNAPDI, Bangkok, 1977.

TABLE 13

EFFECTIVE PROTECTIVE RATES, 1949-1971
(IN PER CENT)

Category	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Imports												
Consumer goods												
Nonessential	5	5	114	114	114	110	141	154	179	178	183	349
Semiessential	4	4	23	23	23	19	19	34	18	37	31	149
Essential	0	0	-7	-7	-7	-7	-8	-5	-6	-7	-10	-15
Producer goods												
Nonessential	5	5	24	24	24	17	10	28	26	25	5	173
Semiessential	0	0	19	19	19	19	21	22	26	24	51	52
Essential	0	0	19	19	19	19	20	23	26	26	52	50
Exports												
Traditional	0	0	-15	-15	-15	-15	-16	-19	-19	-20	-43	-27
New (subsidy)	23	23	23	23	31	31	31	31	31	27	25	40

Category	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Imports											
Consumer goods											
Nonessential	230	337	332	326	305	354	357	383	365	354	362
Semiessential	61	54	50	50	56	50	52	54	55	51	57
Essential	-9	-2	0	0	0	1	1	1	1	2	5
Producer goods											
Nonessential	56	169	174	171	198	191	193	195	197	193	203
Semiessential	40	21	14	12	12	12	13	15	15	14	14
Essential	39	28	25	25	28	26	26	27	27	26	19
Exports											
Traditional	-45	-37	-38	-38	-22	-20	-21	-22	-21	-43	-33
New (subsidy)	2	-4	-0	-0	12	12	13	13	13	21	28

stage, thanks mainly to the various export promotion incentives made available by the Export Incentives Act of 1970 and the rationalization of the structure of protection which has been undertaken time and again in the 1970s.

D. SINGAPORE

The trade policies of Singapore traditionally have been rather liberal. The two main considerations which have determined Singapore's trade policies in the post-war years are entrepot trade and industrialization. Singapore's prosperity had been closely associated for a long time with its "free port" posture. Thus, it has been imperative for Singapore to ensure that the restrictions on trade flows are reduced to the minimum. Moreover, protectionist trade policies to promote import substitution were clearly inappropriate for the small city state of Singapore. There has been hardly any need for Singapore either to resort to import controls, since its balance of payments has been strengthened by its role as a financial centre for South-east Asia or to impose heavy import duties for revenue purposes, since its economy has been affluent enough to rely mainly on direct taxes.

Industrialization provided a challenge to the small city state of Singapore with its limited land resources and a population of 2 million people. The traditional source of income for Singapore has been mainly the entrepot trade owing to its convenient geographical location at the cross road of international shipping routes. Manufacturing became the main economic activity since 1964. Import substitution formed the main basis of industrialization in the initial phase, although under relatively mild protection. The shortcoming of the import substitution as the industrialization strategy became apparent sooner in Singapore than elsewhere, simply because of the extremely limited size of its domestic market.

The trade policy of Singapore traditionally has been rather liberal, with tariffs serving almost exclusively revenue purposes. Indeed prior to 1960, Singapore with its free port status had import duties only on liquors, tobacco and petroleum products for revenue reasons. The protective tariffs on a limited number of items were introduced only in 1960. The Tariff Advisory Committee, established in 1962, was instrumental in extending tariff protection to many items. By the end of 1965, tariffs were imposed on 155 items of the Standard International Trade Classification (SITC).

/Table 14.

By 1970, the number of items enjoying tariff protection rose to 343, with an unweighted average tariff height of 33 per cent for all tariff items and 4 per cent for all import items. The unweighted average tariff rate was as low as 1.1 per cent of total retained imports.[12/] The 1970 average level of nominal tariff protection in Singapore amounted to only 5.1 per cent.[13/] No estimates of effective rates of protection for Singapore are available. Table 14 presents the frequency distribution of tariff levels in 1970, while table 15 gives a time series on Singapore's protective tariffs for the period 1960-1975.

It was in 1963 that import quotas were first introduced in Singapore which was then within the Malaysian federation. By 1965, import licensing and quota restrictions were extended to cover a total number of 230 items. After the secession from the Malaysian federation in August 1965, the number of items under import restrictions was reduced to 88. The use of import quotas declined rapidly after 1966 and the number of items under quotas restrictions was reduced to six by 1970.

Protectionist trade policy was subsequently reviewed in the light of the changes in the industrialization strategy in favour of export orientation. It is therefore hardly surprising that recent years had witnessed not only very few additions to the tariff lists but also the abolition of many of the existing tariffs together with the scaling-down of some others. A rapid liberalization of import controls took place in the first half of the 1970s. It was particularly rapid in 1973 under the pressure of full employment and inflation. As a result, import duties on 153 items were eliminated and tariffs on 58 items were revised. By the end of 1973, the number of protected items was cut down to 137 (table 15), and all import quotas were abolished. And, most of the goods subject to import licensing were de-licensed by 1975.

The deproliferation of tariffs in the face of increasing export orientation has apparently forced the industries to be more efficient and competitive, judging from subsequent performance in exporting especially in the field of machinery and transport equipment. The liberal trade policy was necessitated by the realization that the domestic market was too small for efficient or sufficient industrialization, and the consequent emphasis on export orientation has resulted in a tariff structure that pales in comparison with those found in other ASEAN countries where tariffs and quotas have proliferated to a considerable extent.

/Table 14.

12/ Chia Siow Yue, "Development of trade policies in Singapore", in Seiji Naya and Vinyu Vichit-Vadakan (eds.), op.cit., p. 265.

13/ Ibid.

TABLE 14

SINGAPORE: FREQUENCY DISTRIBUTION OF TARIFF LEVELS, 1970

Tariff Level	No. of Tariff Items	Percentage	Cumulative Percentage
0 - 9.9%	11	3.2	3.2
10 - 19.9%	50	14.6	17.8
20 - 29.9%	131	38.2	56.0
30 - 39.9%	40	11.7	67.7
40 - 49.9%	36	10.5	78.2
50 - 99.9%	32	9.3	87.5
100% and over	10	2.9	90.4
ad valorem, unknown	33	9.6	100.0
Total	343	100.0	

Source: Chia Siow Yue, "Size of Market and Export-Oriented Industrialization in Singapore", in N. Suzuki (ed.) Asian Industrial Development, Institute of Developing Economies, Tokyo, 1975

/Table 15.

TABLE 15

NUMBER OF PROTECTIVE TARIFFS ON IMPORTS, SINGAPORE, 1960-1975

As at end of Year	Number of New Tariffs	Number of Tariffs Abolished	Cumulative Net Total
1960	9	-	9
1961	-	-	9
1962	9	-	18
1963	-	-	18
1964	23	-	41
1965	163	2	202
1966	15	3	214
1967	19	4	229
1968	92	1	320
1969	31	8	343
1970	1	12	332
1971	3	40	295
1972	2	7	290
1973	-	153	137
1974	1	9	129
1975	1	-	130

Source: Chia Siow Yue, "Development of Trade Policies in Singapore", in Seiji Naya and Vinyu Vichit-Vadakan (eds.), ASEAN Co-operation in Trade and Trade Policy, UN APDI, Bangkok, 1977, Table 8, p. 293.

/E.

E. THAILAND

Thailand seems to have had strange mixtures of liberal and restrictive trade regimes. In the early post-war years Thailand opted for a multiple exchange rate system, low tariff protection and absolute control on rice trade. The period 1955-1961 witnessed a gradual liberalization of trade, the abolition of the multiple exchange rate system and the introduction of export tax and quotas on rice trade. It was in the 1960s that mild tariff protection was instituted together with strong investment incentives to promote import-substituting industries. In the first half of the 1970s, tax incentives for industries were relaxed, but tariffs were raised to protect domestic industries and at the same time, somewhat inconsistently, active measures were taken to promote manufactured exports.

Industrial promotion in Thailand was intensified since the early 1960s. Trade policies have accordingly been adjusted. The 1964 tariff reform, for instance, had resulted in an escalation and proliferation of the protective tariff structure, practically making all tariff rates multiple of 5 per cent. Tariffs were further revised mostly in the upward direction in 1970 in the face of a balance of payments deficit. Subsequent tariff changes, made in 1972 and 1973, were meant to adjust the protective effects and to offset the rising costs of raw materials. Thus, tariff rates on such items as white cement, glutamic acid, paper products, metal wires, plastic materials, carpets, electric wires and cables, etc., were raised, while the rates on iron wire, materials for paints and prints, etc., were lowered. In July 1974, the tariff rates for 306 main items, mostly chemical materials and products, machinery, metal products and pharmaceuticals, were adjusted downward again to cushion the impact of rising raw material costs. For example, tariffs for chemical materials and products were reduced from 30 per cent to 10 per cent, for steel and non-ferrous metal from 10-30 per cent and for machinery from about 15 per cent to 5-10 per cent.

In 1974, the potential nominal rates of protection fell mostly between 20 to 50 per cent. For input imports such as chemical materials, paper and steel products, the potential nominal rates were lower than in the previous years. Since the potential nominal rates take into account not only tariffs but also other sources of protection especially the differential tax rates, the potential nominal rates frequently exceed the tariff rates.

/Generally,

Generally, the nominal potential rates were high for consumer products, as can be seen in table 16. For example, the rates were 44 per cent for textile fabrics, 50 per cent for plastic products, 67 per cent for clothing, 80 per cent for storage batteries, 95 per cent for perfumery, cosmetics, 102 per cent for passenger cars and 132 per cent for monosodium glutamate.

The realized nominal rates reflect actual price differences arising from direct price comparisons. The difference between potential and realized nominal rates depend on the degree of trade orientation of the industry. In the case of import-competing industries the differences are very small. The realized rates were lower than the potential rates for several items including radio assembly and parts, rubber products, cotton fabrics, glass sheets, etc., presumably due to the presence of large number of firms producing in a given industry.

The effective rates were generally higher than the nominal rates mainly due to lower tariffs on material inputs. In the extreme, there are several industries with negative value added at world prices, implying absolute waste of resources. The highly protected industries potentially include meat products, confectionery, sweet condensed milk, rubber products, clothing, perfumery, cosmetics, etc. These high rates are mostly due to low prices of domestic inputs and high nominal rates on the finished products. Industries with least potential effective protection are the export-oriented ones such as petroleum products, chemical materials, non-ferrous metal basic industries, printing and publishing and non-electrical machinery.

In terms of realized effective rates, however, the number of industries with negative value added are considerably reduced. The results provide evidence of a wide dispersion in the realized effective rates which attest to the price distortions caused by the protective structure.

There is no doubt that the tariff structure in Thailand, as indeed in other ASEAN countries except for Singapore, clearly exhibit a bias in favour of production for the domestic market and against exports. There has also been a tendency for the potential protection, both nominal and effective, to escalate from lower to higher degrees of fabrication. But, when realized effective rates are considered the differential incentives do not seem to escalate strikingly. The fact that the realized effective rates are considerably lower than the potential effective rates strongly suggests that a certain degree of tariff redundancy prevails in Thailand.

/Table 16

TABLE 16

THAILAND: NOMINAL AND EFFECTIVE PROTECTION, 1974

Industries	Nominal		Potential Effective		Realized Effective	
	Potential	Realised	Balassa	Corden	Balassa	Corden
Processed Food						
Meat & meat products	89.0	0	*	*	684.9	117.3
Sugar	-50.0	-50.0	-90.35	-84.02	-90.35	-84.02
Confectionery	79.0	55.8	*	*	*	*
Sweet condensed milk	29.0	0	*	*	*	1,788.07
Rice	-32.8	-32.8	-51.95	-35.80	-51.95	-35.67
Wheat flour	30.0	30.0	153.91	30.26	153.91	30.26
Other cereal products	67.0	0	*	1,657.97	30.49	27.71
Monosodium glutamate	132.5	31.8	*	*	377.41	75.82
Food seasoning	85.68	0	*	*	11.17	5.75
Tapioca flour	-2.0	-2.0	-34.97	-29.17	-34.97	-29.17
Fruit and vegetable preserved	121.7	0	*	*	23.39	16.15
Fruit canning	-2.0	-2.0	-34.25	-8.03	-34.25	-8.03
Frozen seafood	-1.5	-1.5	-45.91	-10.92	-45.91	-10.92
Animal feeds	1.5	0	-1.7	-1.26	-11.01	-8.35
Food preparations nes.	61.55	0	*	221.36	-22.26	-16.13
Beverage and Tobacco						
Soft drinks	49.0	0	*	3,004.71	*	200.91
Beer	378.6	52.55	*	*	115.8	65.3
Whisky	294.9	72.48	503.9	282.2	101.4	92.5
Cigarettes	82.82	0	3,315.1	2,067.1	-12.2	-12.1
Construction Materials						
Cement (domestic)	32.6	-24.7	51.54	43.9	-45.04	-42.9
(export sales)	-	0	-	-	-12.65	-11.72
Cement & concrete products	27.0	n.a.	79.92	54.97	n.a.	n.a.
Non-metallic construction materials	33.2	16.85	59.57	44.43	23.16	16.78

/Table 16 (continued).

TABLE 16 (CONTD.)

Industries	Nominal		Potential Effective		Realized Effective	
	Potential	Realized	Balassa	Corden	Balassa	Corden
Intermediate Products I						
Vegetable oil & fat	16.0	0	85.1	49.1	-10.7	-9.1
Lumber - shaved wood	-18.7	-187.0	-54.38	-42.31	-54.38	-42.31
Veneer and plywood	60.0	0	*	*	144.5	62.7
Leather	39.8	-	*	1,223.5	-	-
Vegetable fibre	-2.0	-2.0	-1.49	-1.22	-1.49	-1.22
Thread & yarn	24.5	18.57	48.25	39.02	23.59	19.85
Synthetic fibre & thread	20.5	n.a.	89.97	30.24	n.a.	n.a.
Paper	13.0	2.24	26.17	10.30	-22.52	-12.11
Cordage, rope	29.0	0	37.68	29.02	-21.38	-18.27
Petroleum products	0	0	-13.4	-9.8	-13.4	-9.8
Glass sheet	50.0	0	197.49	122.12	-8.1	-6.8
Glass products	45.4	45.4	99.35	72.97	99.35	72.97
Chemical materials	14.6	14.6	17.83	13.04	17.83	13.04
Iron & steel basic industries	13.9	13.9	97.9	37.7	97.9	37.7
Iron rods	4.9	0	-11.35	-5.44	-19.9	-10.1
Non-ferrous metal basic industries	8.3	8.3	3.9	3.2	3.9	3.2
Intermediate Products II						
Textile fabrics	44.2	0	99.57	65.57	-20.1	-16.6
Cotton fabrics	41.5	0	126.55	62.83	-33.5	-25.8
Gunny bag	0	-	-6.85	-3.86	-	-
Paper & paper-board articles	35.0	0	146.8	48.6	-40.31	-27.06
Rubber tires & tubes	26.9	0	49.71	33.35	-12.7	-12.7
Materials of rubber	36.0	n.a.	*	*	n.a.	n.a.
Articles of rubber	42.8	7.8	144.04	96.63	4.89	4.14
Fished structural metal products	29.2	29.2	58.61	49.14	58.61	49.14

TABLE 16 (CONTD.)

Industries	Nominal		Potential Effective		Realized Effective	
	Potential	Realized	Balassa	Cordon	Balassa	Cordon
Other metal products	33.1	33.1	61.3	57.6	61.3	57.6
Pigments, paints and vanishes	37.0	37.0	*	57.8	*	57.8
Chemical products, plastic & synthetic	34.0	34.0	45.38	34.85	45.38	34.85
Parquet flooring	30.0	0	*	*	183.3	72.9
Other wood products	36.9	0	*	*	103.0	81.94
<u>Consumer Non-durables</u>						
Clothing	66.9	0	*	*	11.9	7.3
Textile articles	37.0	0	158.8	93.6	-5.5	-4.4
Shoes	67.1	0	355.3	199.5	8.0	6.8
Printing & publishing	7.0	0	-1.95	-1.71	-12.06	-10.72
Leather goods	53.2	0	168.95	101.90	-46.48	-41.41
Drugs & medicine	37.5	0	178.13	50.76	-19.24	-12.42
Perfumery, cosmetics	95.0	95.0	*	*	*	*
Soap, detergent	49.4	0	322.4	84.0	-16.6	-10.6
Flashlight batteries	38.0	0	75.77	36.84	-29.18	-22.04
Electric bulbs	31.2	14.3	61.11	39.87	0	0
Cutlery	30.0	30.0	44.46	35.26	44.46	35.26
Metal household equipments	48.5	11.23	31,814.3	467.66	8.32	7.15
Plastic products	50.0	n.a.	134.19	58.89	n.a.	n.a.
Matches	82.0	0	25.8	18.9	-11.7	-9.3
Badminton shuttle cocks	41.0	41.0	160.73	103.4	160.73	103.4
Precious stones	0	0	-2.85	-2.47	-2.85	-2.47
Pottery, china earthenware	47.8	47.8	145.23	78.13	145.23	78.13
<u>Consumer Durables</u>						
Metal furniture	50.0	50.0	165.16	123.75	165.16	123.75
Wood furniture	50.4	0	394.03	189.4	12.48	9.85

/Table 16 (continued).

TABLE 16 (CONTD.)

Industries	Nominal		Potential Effective		Realized Effective	
	Potential	Realized	Balassa	Corden	Balassa	Corden
Motorcycle assembly & parts	37.8	37.8	48.35	38.30	48.35	38.30
Bicycle assembly & parts	30.0	23.2	85.19	0.69	-7.94	-3.30
Radio assembly & parts	39.4	10.67	74.54	56.52	3.13	2.77
T.V. & household appliances	52.9	52.9	*	830.2	*	830.2
Storage batteries	80.0	11.32	291.69	254.01	-3.80	-3.56
Machinery						
Tractor assembly	4.5	4.5	6.59	5.93	6.59	5.93
Sewing machine	50.0	12.87	1,657.3	148.95	-11.24	-8.21
Non-electrical machinery	13.0	13.0	3.95	3.43	3.85	3.43
Wires, cables & accessories	27.2	27.2	104.73	62.11	104.73	62.11
Transport Equipment						
Motor vehicle parts	43.7	43.7	147.33	84.89	147.33	84.89
Passenger car assembly	102.5	102.5	-	353.88	*	353.88
Truck assembly	40.0	40.0	219.15	10 .65	219.15	100.65

Source: Narongchai Akrasanee, The Structure of Effective Protection in Thailand: A Study of Industrial and Trade Policies in the Early 1970's, March 1975.

Note: * negative value added at world prices

n.a. = not available

/A

A strong bias in favour of production for the home market obviously exists despite the incentive that imported material inputs are exempted from import duties and business taxes.[14/] Thus, the trade policy, as exemplified by the tariff structures, has been designed mainly to build up an industrial base that is essentially domestic oriented. It has obviously led to industrial excess capacity and high production costs. Further industrial expansion thus requires either extension of production to the lower levels of fabrication or export promotion for existing production at the higher level of fabrication.

III. ASEAN TRADE CO-OPERATION

That regional co-operation in ASEAN has centered around trade is understandable in view of the importance of trade to the ASEAN economies. ASEAN countries are aware of the importance of freer intraregional trade. They are also aware of the Association's "muscles" in the sense that it constitutes a "collective bargaining force" vis-a-vis the developed countries. ASEAN trade co-operation may be discussed under two subheadings, i.e. intraregional trade, and international trade.

A. INTRAREGIONAL TRADE

That ASEAN is not quite ready for a full-fledged free-trade area arrangement is fairly evident. This has led the United Nations Team to recommend "a gradual step-by-step and item-by-item approach ... with a policy of progressive advance towards a long run goal of a limited free-trade area."[15/] The Heads of ASEAN States agreed at the Bali Summit in February 1976 in principle to the preferential trading arrangements as a long term objective based on "rounds of negotiations subject to the unanimous agreement of member states."[16/] An agreement on preferential trading arrangements was finally signed in Manila in February 1977.

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14/ In the 1960s 7/8 of these were refunded to exporters. Since 1972, 100 per cent exemption were granted to exporters on imported material input items.

15/ Economic Co-operation for ASEAN, Report of the United Nations Team, 1972, p.2.

16/ Declaration of ASEAN Concord, Bali, February 1976, B 3 (ii).

The ASEAN Preferential Trading Arrangements (PTA) provided for long-term quantity contracts, purchase finance support at preferential interest rates, preference in procurement by Government entities, extension of tariff preferences, liberalization of non-tariff measures, etc. The long-term contracts apply to selected products subject to special agreements to be negotiated among member countries, while purchase finance at preferential interest rates apply to either exports or imports of selected products of ASEAN domestic origins. Preference in government procurement meant a preferential margin of 2 1/2 per cent not exceeding US$ 40,000 worth of preferences per tender. Tariff preferences are to be accorded on a product-by-product basis, taking into account existing levels of tariffs in the member countries. The PTA also requires that multilateral or bilateral tariff concessions to be extended to all member countries on an ASEAN most-favoured-nation basis, except where special treatment is accorded to products of ASEAN industrial projects which shall be embodied in supplementary agreements. The escape clause provision, however, permits any member country to suspend provisionally and without discrimination the preferences where they cause or threaten to cause injury to domestic sectors.

Tariff preferences under the PTA are to be implemented in stages with each country bringing to the negotiating table offer lists and request lists, out of which items for tariff cuts will be selected. The first batch of 71 products, 14 from each member country (15 from Indonesia) on which tariffs were to be reduced by 10 to 30 per cent, was agreed upon at the Singapore meeting of ASEAN Economic Ministers in July 1977. It was implemented with effect from 1 January 1978. But, most of the products involved are relatively insignificant in mutual trade, with tariff rates already at low or zero levels - which means that preferential tariff cuts would scarcely result in increased intraregional trade. A further, 755 items have been added to the original list of 71 products at the Jakarta meeting of ASEAN Economic Ministers in June 1978. And, preferential trading in these 755 items have taken effect from 1 September 1978. In December 1978, 500 more items were added for implementation in March 1979, bringing the number of items eligible for preferential tariff cuts to 1,326.

It is hoped that the product coverage will be progressively widened through rounds of negotiations and that preferential trading will be implemented in phases from time to time. Although this selective trade liberalization undoubtedly marks a milestone in ASEAN regional economic

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co-operation, it is a far cry from the more liberal across-the-board tariff cuts. The gradual step-by-step and item-by-item approach of the ASEAN PTA represents an extremely cumbersome way of bringing down the trade barriers within the region. It would perhaps take more than a life time for the product coverage to be widened and the tariff cuts to be deepened before the long run goal of a free-trade area can be achieved.

In contrast, the across-the-board approach would only need to deepen the tariff cuts progressively until tariffs are completely eliminated across the entire range except in the case of certain goods which may be exempted from the tariff arrangement. The across-the-board approach would lend itself to definite programme of tariff deceleration, quite unlike the step-by-step and product-by-product approach which depends upon hard bargaining at the negotiating table.

In an attempt to force the pace of ASEAN trade liberalization, the front-runners, namely the Philippines and Singapore, concluded a bilateral agreement on an "across-the-board" 10 per cent tariff cuts on 1,750 items in early 1977. Subsequently, Thailand joined the front-runners in the "across-the-board" tariff reduction scheme. The ASEAN most-favoured-nation clause of course requires these trilateral tariff concessions on 1,750 items to be extended to the other two ASEAN members, Indonesia and Malaysia, without they having to reciprocate in tariff cuts. But, there are already indications that Indonesia frowns upon the "across-the-board" trilateral tariff cuts which are extremely embarrassing to it.

Upon close scrutiny however, the so-called "across-the-board" tariff reduction arrangement among the Philippines, Singapore and Thailand does not turn out to be as dramatic as it appeared to be at first sight. The 10 per cent tariff reductions cover only those items which are currently traded among these countries and not the entire range of products traded internationally as it was originally understood. Thus, strictly speaking, the arrangement is not truly across-the-board as the term is understood in modern times; it is across a narrow board.

It must also be mentioned that, in addition to preferential tariff cuts, the PTA also provides for mutual extension of assistance on the supply and purchase of basic commodities, particularly rice and crude oil, especially in times of emergency. In other words, ASEAN countries have agreed to accord each other priority of supply in times of crisis based on the principle of first refusal.

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With regards to rice, a machinery for consultation on supply and demand has been established to facilitate negotiations. Thailand has been keen on a buffer stock arrangement for rice with stocks being held either in the exporting country or in the deficit country. Malaysia however favours a stockpile mechanism without open market operations, in view of the financial constraints and the strategic nature of the commodity. Nevertheless, a basis for co-operation exists for rice.

In the case of petroleum, an emergency sharing scheme for crude oil and/or oil products in times of shortage and glut has been agreed upon. But, the regional consumption of ASEAN oil (Indonesian and Malaysian) is only minimal, mainly because it is more expensive than the Middle East oil (owing to the lower sulfur content of ASEAN oil).

B. INTERNATIONAL TRADE

ASEAN countries rank high among the open economies of the world, with Singapore being the most open of all. The importance of international trade to ASEAN countries can therefore be readily appreciated. ASEAN represents an outward-looking group of nations which cannot develop rapidly in isolation. ASEAN is thus apparently poised towards increased trade with the rest of the world. But, trade of course brings not only prosperity but also problems, and measures to improve the international economic scenario are accordingly of tremendous interest to the ASEAN countries.

ASEAN seems to regard the North-South Dialogue as an important international development which would help secure regional resilience and stability. ASEAN's position on the North-South Dialogue is unambiguously inseparable from that of the Group of 77 countries of UNCTAD. In fact, ASEAN States have echoed the views of the Third World in their search for a better international economic order, and ASEAN as a regional group would not therefore seek a separate path towards this goal.

ASEAN countries are industrializing themselves at a fast rate and there are noticeable shifts in their industrialization strategies from an inward-looking import substitution to an outward-looking export orientation. It is not shortage of capital nor lack of technology but market limitations which constitutes the main obstacle to industrial expansion in the ASEAN countries. Accordingly, access to markets in the developed

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countries is regarded in the ASEAN circle as one of the most important trade questions to be resolved in the North-South Dialogue. The question of market access concerns not only the ASEAN manufactures but also their traditional export commodities.

ASEAN is concerned that the Multilateral Trade Negotiations (MTN) under the auspices of the GATT, which serves as a negotiating forum for the reduction of trade barriers and improvement of trade relations, have not benefited the developing countries whose exports have received much smaller tariff cuts than those of developed countries. The deep tariff cuts achieved under the MTN apply to the finished products which are mostly exported by industrialized countries. The progress of the MTN seems to be rather slow and its direction heavily biased in favour of the exports of developed countries. ASEAN plans to play an active role in the MTN and has accordingly sought UNDP technical assistance to establish an ASEAN-MTN Project with UNCTAD as the executive agency in collaboration with ESCAP. ASEAN's initial activity in this sphere consisted of the identification of the trade interests and problems of its member countries and the objectives to be attained in the MTN.

ASEAN regards the GSP as another important development in international trade. From its inception in 1972, the GSP was envisaged as a voluntary, generalized, non-reciprocal and non-discriminatory trade arrangement which would help the developing countries increase export earnings, promote industrialization and accelerate economic growth. Developed market economy countries which offer GSP treatment under various schemes have eliminated or reduced most favoured nation (MFN) tariffs on selected products for developing countries which are designated as GSP beneficiaries, while the socialist countries, which do not operate tariff regimes, offer alternative preferential measures such as quota relaxations. The list of the GSP beneficiaries varies between schemes, since the preference giving countries reserve the right to designate or not to designate particular countries as beneficiaries under their respective schemes.

Although the GSP appears to be still in its infancy, the evidence of progress so far is encouraging. There have been improvements with respect to country involvement, commodity coverage and depth of preferential tariff cuts. The number of preference-giving and receiving countries has increased significantly in the recent past. The product coverage has also been widened

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for semi-manufactured and manufactured goods, although the coverage with respect to agricultural products appears to be rather narrow. The manner and depth of preferential treatment, which differ among the various schemes, include across-the-board duty-free treatment, linear partial tariff reductions, tariff quotas, etc.

ASEAN countries are among the beneficiaries of most GSP schemes, the notable exception being Indonesia which has been deprived of the GSP treatment by the United States. That ASEAN members have benefited from the GSP should not obscure the discontentment prevailing within the ASEAN region regarding the operation and the administration of the GSP. This had called for a joint approach on the part of the ASEAN countries. The notable exclusion of textiles, footwear and petroleum products from the product coverage of most schemes is particularly distressing of the ASEAN countries which have actual or potential export interests in these items. The thin coverage with respect to agricultural products in most schemes is also highly discomforting to the ASEAN countries whose stake in the traditional exports is well known. The rules of the various GSP schemes still remain somewhat too restrictive and rigid to permit complete access to the GSP facility in spite of some attempts to relax them. This is especially the case with the rules of origin particularly with respect to export documentation, processing requirement and in-transit regulations. In general, these rules insist that goods apart from being accompanied by appropriate documentation, must have undergone "substantial transformation" in the beneficiary country before they are shipped directly to the preference-giving country without intermediate processing or trading.

These rules of origin are particularly unfavourable to the ASEAN countries, since goods originating in Indonesia, Malaysia, the Philippines and Thailand often go through Singapore either for purpose of transit or for entrepot trade. It is of interest to note however that under the EEC GSP scheme certain goods originating in the ASEAN region are permitted to pass in transit through and be traded in Singapore before entering the EEC. There is a need for this exemption from the rule of direct consignment to be extended to all GSP schemes in which ASEAN countries are beneficiaries, in view of the role of Singapore as a shipping and entrepot trading centre in the ASEAN region. The notion of domestic content based on "substantial transformation" also needs to be reconsidered in the context of the ASEAN regional co-operation. Implementation of regional industrial

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projects in general and industrial complementation schemes in particular may disqualify many of the products for GSP treatment if the rules of origin are strictly enforced as they are, for components may be manufactured in say any four of the ASEAN countries and assembled in any one of them. To avoid this, the domestic content must be redefined in regional terms. The merit of the common approach is fairly evident. ASEAN as a group will be able to maximize its benefits from the GSP schemes if it seeks a "common" treatment for its members as if they were one entity. Thus, any quota assigned to the ASEAN under a given GSP scheme may be reallocated internally among members, so that any unfulfilled national quota may be released for other members to respond. The joint approach will also ensure that no ASEAN member is singled out as a non-beneficiary of the GSP.

Traditional commodities still dominate the exports of ASEAN economies with the possible exception of Singapore. Even in the case of Singapore which does not itself produce any, primary exports are of considerable importance, as Singapore processes and re-exports raw materials, especially natural rubber and tin imported from the neighbouring countries. Given the low price elasticities of supply and demand for these commodities, any change that affects supply or demand will inevitably generate extreme price instability. However, it appears that it is mainly changes in international demand that cause the price savings which are sometimes accentuated by destabilizing speculations. Volatile prices of these commodities of course render traditional export proceeds rather unstable, often throwing the ASEAN economies out of gear, as these economies are highly vulnerable to external fluctuations.

In the past the ASEAN countries have relied on international commodity price stabilization schemes and on the compensatory financing facility of the International Monetary Fund to solve dxport instability problems. By and large, the ASEAN countries have participated in a number of international commodity agreements. But, international commodity control schemes have not produced impressive results in this regard, as attested by the post-war schemes on tin and sugar and pre-war schemes on rubber. The failure of these schemes to secure short-run price stability and long-run favourable prices may be attributed to the piecemeal nature of the approach adopted. The situation thus seems to warrant an integrated approach.

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It is in this context that the importance of the Integrated Programme for Commodities (IPC), which was adopted as UNCTAD Resolution 93(IV), to ASIAN countries becomes self-evident, especially since several commodities of utmost interest to ASEAN are among the "core" commodities of the IPC. ASEAN has therefore supported, in general, the IPC for particular, the Common Fund which is construed as a central source of assured finance for international commodity buffer stock operations.

ASEAN countries have also expressed their interests in international compensatory financing of export fluctuations. For, such financing will be an useful supplement to other global measures to stabilize commodity prices and will be extremely helpful where export commodities to not lend themselves to price manoeuvres of any sort. But, ASEAN finds the present IMF facility extremely inadequate, and ASEAN countries have jointly expressed the need for expansion and further liberalization of the IMF facility.

ASEAN countries are also interested in the STABEX scheme of the Lome Convention. It is readily clear that ASEAN will benefit from similar arrangements for specific commodities with its main trading partners, especially Japan, the United States and the EEC. ASEAN countries have already made joint approaches to these countries to obtain STABEX facilities.

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IV. THE FUTURE OUTLOOK

It is clear from the preceding analysis that ASEAN economies are at the cross-roads in many respects. The 1970s has witnessed certain shifts in the industrialization strategies and trade policies in ASEAN countries and one may reasonably expect these trends to continue and gather momentum in the 1980s. It appears that ASEAN economies are poised for sustained economic growth in the coming decade, the nature and speed of which will however depend considerably upon trade prospects they face and trade strategies they adopt.

An attempt will be made in this section to "project" into the 1980s. Rigorous econometric projections are beyond the scope of the present paper, but reference will be made to projections which are readily available. Although the assessment of the future in this section is admittedly speculative in nature, it will be based on sound reasoning, supported by the preceding analysis.

We shall first look at the "forecasts" for the 1980s. Based on these forecasts, and based on the preceding analysis relating to the 1970s, we shall attempt to examine the trade prospects and strategies regarding ASEAN's trade in primary commodities and manufactured goods.

A. PROJECTED GROWTH[17/]

ASEAN as a whole is expected to maintain in the 1980s its modest growth rate which was achieved in the 1970s. The production of ASEAN region as a whole has been projected to grow at an average rate of 6.8 per cent in terms of gross domestic product and by 3.4 per cent per annum in terms of *per capita* gross domestic product, during 1980-1985, as shown in table 17. Singapore has been projected to be the fastest growing economy in the ASEAN region, with a GDP growth rate of 8.0 per cent per annum. Since its population growth rate is expected to be the lowest in the region, the growth rate of its *per capita* GDP is also expected to be the highest: 5.6 per cent. The Philippines lies at the other extreme, with a projected GDP growth of 6.5 per cent and *per capita* GDP growth of 3.0 per cent.

The manufacturing sector is expected to be the most buoyant sector, growing at an average rate of 10.4 per cent per annum. The performance of the manufacturing sector is likely to vary from country to country. An

/Table 17.

17/ This sub-section draws heavily from the United Nations, *Asian Industrial Survey for Regional Co-operation*, vol. I, 1973.

TABLE 17

ASEAN: PROJECTIONS OF SELECTED ECONOMIC INDICATORS 1980-1985

Country	Population (Million)			GDP (Billion US$)			Per Capita GDP (US$)			Manufacturing Output (Billion US$)			Imports (Billion US$)			Exports (Billion US$)		
	1980	1985	Growth rate %	1980	1985	Growth rate %	1980	1985	Growth rate %	1980	1985	Growth rate %	1980	1985	Growth rate %	1980	1985	Growth rate %
Indonesia	161.3	183.4	2.6	17.2	23.8	6.5	110	130	3.7	2.0	3.1	8.0	3.8	5.3	7.1	2.5	4.3	11.3
Malaysia	14.4	16.5	2.8	7.9	11.0	7.0	550	670	4.1	1.5	2.7	12.0	2.8	3.8	5.9	2.8	3.7	5.9
Philippines	52.4	62.0	3.4	18.0	24.7	6.5	340	400	3.0	4.7	7.4	9.8	2.8	3.4	6.0	2.3	3.1	7.0
Singapore	2.8	3.0	2.3	4.3	6.4	8.0	1,670	2,160	5.8	1.5	2.8	13.9	5.1	7.3	8.1	4.9	7.4	8.8
Thailand	49.3	56.9	2.0	13.3	18.6	7.0	270	330	3.8	2.5	3.9	9.3	2.8	2.8	5.6	2.0	2.7	6.2
ASEAN	280.0	321.8	2.8	60.7	84.3	6.8	220	260	3.4	12.2	19.9	10.4	16.2	22.4	6.7	14.6	21.2	7.8

Source: Estimated for ASEAN from the AIS Projection. See Tables 7-13, United Nations, Asian Industrial Survey for Regional Cooperation, Vol. 1, 1973.

/annual

annual growth rate of nearly 14.0 per cent has been projected for Singapore, while in Indonesia - industrially least-developed ASEAN country - the growth of manufacturing output is projected to proceed at 8.0 per cent per annum. Malaysia's manufacturing output is expected to grow at a fast rate of 12.0 per cent, which falls only slightly below that of Singapore (table 17).

The share of the manufacturing sector in GDP is expected to rise from one fifth in 1980 to nearly one fourth in 1985 (see table 18). By 1985, the manufacturing sector will account for nearly 44 per cent of Singapore's GDP. In this regard, Indonesia occupies the bottom end of the scale, with its manufacturing output constituting a little more than 13 per cent of its GDP by 1985. By comparison, the Philippines ranks second only to Singapore, followed by Malaysia (24 per cent) and Thailand (21 per cent), as can be seen in table 18.

ASEAN's foreign trade sector is also expected to be dynamic, with imports growing at the rate of 6.7 per cent per annum and exports at the rate of 7.9 per cent per annum during 1980-1985. But, the region as a whole is expected to incur huge trade deficite during the first half of 1980s (table 18). According to projections, Indonesia will have the highest annual growth rate of exports (11.3 per cent) in the region, thanks to its vast oil resources, but its imports are expected to exceed its exports by substantial margins. The Philippines is also expected to face big deficits in its balance of trade in the 1980s. Malaysia which has had extremely favourable trade balances in the 1970s is expected to run into trade deficit in the next five years or so (table 17). The ratios of imports and exports to GDP are given in table 18, from which it appears that foreign trade orientation of ASEAN as a whole will not diminish in the first half of the 1980s.[18/]

B. PRIMARY COMMODITIES

The prospects of ASEAN's trade in primary commodities are highly dependent on the growth of industrial output in advanced countries. Considerable ups and downs in primary commodities will be as inevitable in the 1980s as it had been in the previous three decades. ASEAN countries' strategies toward their commodity exports are likely to continue unchanged in the 1980s. Export diversification which began in a large scale in the late 1960s is likely to be maintained, although the scope for further agricultural crop diversification appears to be somewhat limited. The accent in the 1980s is likely to be on R & D in the primary sector, aimed at preserving the

/Table 18.

18/ The extremely high ratios for Singapore (table 18) are due to its entrepot trade.

TABLE 18

PROJECTIONS FOR ASEAN: RATIO OF AGRICULTURE, MINING, MANUFACTURING, EXPORTS AND IMPORTS TO GDP 1980-1985
(PERCENTAGE)

Country	Agricultural Output		Mining Output		Manufacturing Output		Imports		Exports	
	1980	1985	1980	1985	1980	1985	1980	1985	1980	1985
Indonesia	45.2	42.0	4.0	4.1	11.7	13.2	22.1	22.5	14.5	18.2
Malaysia	28.2	25.9	2.8	1.9	19.5	23.9	35.4	34.5	35.4	33.6
Philippines	34.5	32.9	3.8	5.6	25.8	30.1	14.4	13.8	12.8	12.6
Singapore	0.6	0.5	0.1	0.1	33.6	43.8	118.6	114.1	114.0	115.7
Thailand	22.9	20.2	1.4	1.3	19.1	21.2	15.0	14.0	15.0	14.5
ASEAN	31.8	29.3	2.9	3.3	20.1	23.6	26.7	26.8	24.0	25.1

Source: As for Table 17.

/comparative

comparative advantage in traditional exports. Thus, the 1980s may witness technological breakthroughs leading to substantial productivity improvements and cost reductions.

It appears that ASEAN countries will benefit from increased exports of their mining output in the 1980s. Exports of tin and copper may increase as a result of higher prices rather than bigger volumes. Thus, the exports of non-renewable resources are likely to be augmented by increased "rent" accruing to the producing countries. Prospects are particularly bright for petroleum exports in the 1980s as the growth of world demand for oil continues to outstrip that of supply. Indonesia and Malaysia will be main beneficiaries of this petroleum boom, while the Philippines and Thailand are likely to suffer from higher cost of fuel.

The composition of ASEAN's primary exports may change in the next decade, in the sense that these raw materials would be subject to higher degree of processing at home before they are exported so as to increase the value added. R & D, referred to earlier, may also be directed towards the discovery of new uses for primary products, resulting in greater domestic absorption of these raw materials. One may safely predict that the domestic raw material content of industrial production in the ASEAN region will rise significantly in the 1980s.

As regards the problem of price instability of primary commodities, the ASEAN approach is likely to be one based on buffer stock operations, where commodities lend themselves to such a mechanism. Thus, International Commodity Agreements are expected to gain greater prominence in the 1980s than it did in the 1970s. It is highly probable that an international rubber agreement will materialize with consumer participation. In this regard, ASEAN countries look forward to an early establishment of the Common Fund which would lend financial support to individual commodity buffer stocks. It appears that ASEAN countries are genuinely interested in stabilizing commodity prices and not in raising them artificially above the equilibrium levels.

ASEAN countries are pragmatic enough to have reservations about the practicality of super commodity organizations envisaged under the ambitious integrated commodity programmes of the UNCTAD. ASEAN countries are therefore unlikely to be carried away by such "prospects". It is

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widely reckoned that what is possible for petroleum may not be possible for other commodities. Thus, Cartel arrangements that are bent on raising commodity prices are out of question for ASEAN's traditional exports, excepting petroleum of course. This is not to deny, however, that ASEAN countries believe in international commodity schemes with the participation of both consumers and producers for mutual benefits.

ASEAN countries also hope that they, as a group, will be able to conclude STABEX arrangements for several commodities with their principal trading partners, especially Japan, the US and the EEC. However, the accent in the 1980s is likely to be on "collective self-reliance". In the 1980s, regional schemes similarly to the "swap" arrangement - which came into existence in 1977 to provide standby credit to help out any ASEAN member country facing short-term payments problem - may be devised in the 1980s or the existing "swap" arrangement may be expanded.

ASEAN's strategy in the 1980s with regards to "basic" commodities such as rice and petroleum, is likely to be one based on the preferential trading arrangements of the 1970s, according to which ASEAN countries agree to accord each other priority of supply in times of crisis. It is however extremely unlikely that such co-operation would entail the establishment of a commodity stoc pile based on open market operations, due mainly to financial constraints.

C. MANUFACTURES

There are unmistakable signs that manufacturers will figure prominently in the exports of ASEAN countries, except perhaps Indonesia, in the 1980s. Impressive beginnings in the exportation of manufactures have already begun. This trend is expected to gather momentum in the 1980s, judging from the changes in ASEAN's industrial structure in the late 1970s. The lessons of the past have shown Malaysia, the Philippines and Thailand that inward-looking import substitution will not take them far enough in industrial development, and the process of structural adjustments to reorientate their industries, which began in the 1970s, would continue into the 1980s.

The preference for large-scale industries based on capital-intensive technologies, which dominated the manufacturing sectors in the ASEAN region in the last two decades is expected to decline in favour of small-scale, labour-intensive activities based on domestic raw materials. ASEAN countries

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have discovered that their comparative advantage lies in the latter. ASEAN countries are likely to benefit from any industrial restructuring that would take place in advanced industrial countries, in the sense that several industries which get weeded out in the process may be relocated in ASEAN countries in the 1980s.

That the export orientation of industries in the ASEAN region will increase in the next decade does not necessarily imply a deproliferation of tariff protection given to the import-substituting industries. Powerful vested interests in the region may prevent the relaxation of tariff barriers and other import controls. The tariff schedules may be modified in such a way as not to alter markedly the nominal protection given to major import-substituting industries, and resources may be guided towards export manufacturing activities through changes in effective subsidies.

It is, however, dangerous to make sweeping generalization in this regard. Singapore's manufacturing sector is almost exclusively oriented towards the foreign markets. Nonetheless, it appears that Singapore's industrial structure will undergo important changes in the 1980s in the face of rising labour costs and growing affluence. There are already signs that Singapore is rapidly losing its comparative advantage in labour intensive manufacturing activities. In the 1980s, Singapore will continue to make structural adjustments which began in the second half of the 1970s and increasingly concentrate on capital-intensive, skill-intensive and technology-intensive industries.

Indonesia's problems in this regard are quite different from those of other ASEAN countries, particularly Singapore. Indonesia is a late-comer in the field of industrialization. Industrial development in Indonesia seems to be at a standstill, firmly rooted in the initial phase of import substitution, facilitated by the existence of vast domestic market and sustained by restrictive tariff and non-tariff barriers. Consequently, industries in Indonesia have remained inefficient, import-dependent and uncompetitive. The oil bonanza of the 1970s seems to have rendered the promotion of manufactured exports unnecessary. But, it appears that a turning point will be soon reached and there are two compelling reasons forcing a departure from the past pattern. First, the import substitution strategy has failed to absorb the labour surplus and to create linkages between the modern manufacturing sector and the traditional primary sector. Second, the growth

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of extractive exports is expected to slow down in the first half of the 1980s. Projections particularly for petroleum are pessimistic: it appears that the present high rate of domestic petroleum consumption (14 per cent per annum) will not permit net growth of petroleum exports during 1980-1985.[19/] Indonesia may therefore be forced to reorientate its industries towards export markets. The recent devaluation of the rupiah may be seen as an attempt to correct the market distortions caused by the previously over-valued exchange rates. However, this devaluation may trigger off another inflationary spiral because of its direct effect on domestic costs and prices.

Malaysia, the Philippines and Thailand lie between the polar cases of Singapore and Indonesia. These three countries are likely to pursue the promotion of manufactured exports more vigorously in the 1980s than in the 1970s. There is no question of going back to the import substitution phase for these countries, since the domestic markets are already saturated.

While we can safely conclude that ASEAN countries are poised to become important exporters of manufactured goods in the 1980s, we must also stress that it is not going to be easy. ASEAN countries will have to not only overcome the protectionist barriers in advanced industrial countries but also to compete with other developing countries. ASEAN, as a group, will, of course, continue to press for significant tariff reductions in advanced countries through the multilateral trade negotiations (MTN), and for concessionary access to the markets of developed countries through the GSP schemes. It is, indeed, difficult to predict the outcome of such efforts.

There is very little doubt that the export markets for manufactures will be highly competitive in the 1980s. ASEAN countries had to face, in the 1970s, stiff competition from Hong Kong and the Republic of South Korea. It however appears that, in the 1980s, these countries will increasingly concentrate on those manufactures which are intensive in skill and technology. Thus, ASEAN's manufacturing sectors in the 1980s are likely to be complementary to, rather than competitive with those of Hong Kong and the Republic of South Korea. But this statement needs an important qualification: Singapore is industrially very different from other ASEAN members, but strikingly similar to Hong Kong and the Republic of Korea. And, as such, Singapore may continue to face tough competition from these two far-eastern countries.

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19/ Iwan J. Aziz, Sumbar Dari Luar Negeri dan Minyak Bumi: Peranan dan Implikasinya di Indonesia, unpublished thesis, Faculty of Economics, University of Indonesia, 1978, p. 157 (quoted by Douglas S. Paauw, "The Indonesian Economy in the 1980s", op. cit.).

The opening up of China to the outside world may affect adversely the export prospects of ASEAN countries especially for labour-intensive manufactured goods in the 1980s. While China's capacity to export low-cost labour-intensive manufactured items is admittedly enormous, it is unlikely that China will be able to organize its outward-looking manufacturing sector quickly and smoothly enough to pose a formidable threat to ASEAN countries' exports of manufactures in the early 1980s. The adverse repercussions on the share of ASEAN exports may thus take longer than it would appear at first sight. At the same time, the possibility of a complementary trade relationship between China and ASEAN, emerging as a result of the modernization of the Chinese economy, cannot be discounted altogether. Be that as it may, China's modernization implies that China will emerge as a competitor to ASEAN in the importation of capital and technology from advanced countries. ASEAN countries may then have cause for concern about a possible slow down in the inflow of foreign investments in the 1980s or an increase in the cost of foreign capital and imported technology in the 1980s.

Finally, a comment with respect to the ASEAN industrial co-operation is in order. It was already seen that the scope for further import substitution in ASEAN countries is extremely limited and that it is unlikely that ASEAN countries would relapse into the import substitution phase in the 1980s. Nevertheless, it is likely that ASEAN countries will opt for regional import substitution through "industrial complementation" and "package deal" arrangements. In this context, reference may be made to the ASEAN urea projects assigned to Indonesia and Malaysia, which are scheduled to begin production in the early 1980s. But, we need to exercise some caution in assessing the prospects for such regional ventures designed to meet the region's demand. Upon close scrutiny, it appears that the scope for such projects is rather limited in view of the fact that member countries seem to be unwilling to give free market access to the products of ASEAN regional projects so as to protect similar domestic industries.[20/] This, indeed, seems to be the case with the proposed ASEAN diesel engine project. In the final analysis, whether or not ASEAN will go into regional import substitution in a big way would however depend largely on external factors. Should ASEAN countries find it difficult to penetrate into the international

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20/ For an elaborate discussion, see: Mohamed Ariff, Malaysia and ASEAN Economic Co-operation (mimeographed) UN APDI, Bangkok, 1978, chapter 4.

market either due to tight protectionism in developed countries or due to stiff competition from other developing countries, they may resort to "defensive" measures such as regional import substitution. But then, the question of exposing domestic industries to competition from regional industries will have to be resolved. However, it would be politically easier for ASEAN to start regional projects that are oriented towards the extra-regional markets - in which case the conflict of regional and national interests would not arise. It would also make economic sense for ASEAN to co-operate in outward-looking manufacturing activities, consistent with the region's factor endowments.

D. INTRA-ASEAN TRADE

Reference were made earlier to the preferential tariff cuts under the ASEAN PTA. It is anticipated that the product coverage will be widened through rounds of negotiation in the 1980s. Although each round of such trade liberalization would undoubtedly mark a milestone in ASEAN economic co-operation, it is certainly a far cry from the more liberal across-the-board tariff reductions. It is, however, doubtful if tariff cuts alone would be sufficient to bring about increased intraregional trade in the ASEAN region. Thus, it has been estimated that an across-the-board tariff cut of 10 per cent would increase intra-ASEAN imports of the Philippines by only 3.4 per cent.[21/] Similar estimates of low magnitude have been obtained for Malaysia[22/] and Thailand,[23/] as well.

In the absence of complementarity in the production pattern of the member countries, the dismantling of trade barriers - tariff and non-tariff - cannot be expected to stimulate intraregional trade significantly. Intra-ASEAN trade is mainly in crude and semi-processed materials and staples, the import demand for which are notoriously price-inelastic. But, it will be wrong to play down the significance of trade liberalization by merely looking at the static effects. The dynamic effects in terms of new investment opportunities, increased competition, improved industrial efficiency and sizeable scale economies should also be taken into account.

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21/ A. Armas and R. Bautisa, The Philippines and ASEAN Economic Co-operation (mimeographed) UN APDI, Bangkok, 1978.

22/ Mohamed Ariff, Malaysia and ASEAN Economic Co-operation, op. cit., table 3-23.

23/ Narongchai Akrasanee, Thailand and ASEAN Economic Co-operation (mimeographed) UN APDI, Bangkok, 1978, table IV.2.

However, ASEAN is not quite ready for radical changes in tariff and non-tariff barriers facing intraregional trade. It is quite clear that piece-meal tariff reductions are not going to result in a significant expansion of intra-ASEAN trade in the near future. Thus, it is very unlikely that the 1980s will ever witness substantial changes in the volume and composition of intra-ASEAN trade unless, of course, ASEAN opts for a complete free trade area. Such a possibility is clearly farfetched. Obviously, there is no unanimity within ASEAN on this issue. The Philippines and Singapore seem to be keen on free trade area in the ASEAN region, while Indonesia and Malaysia are apparently not enthusiastic at all. Although Thailand is sandwiched between these two extremes, it seems to be favourably disposed to the free trade area concept.

The positions taken by the Philippines and Singapore are not difficult to explain. Both countries have fairly well developed industrial bases. Singapore has the most efficient economy within ASEAN, an economy that is industrially advanced, specializing in skill-intensive production; it is export-oriented and competitive, receiving very little tariff protection. It is thus not at all surprising that Singapore prefers free intraregional trade.

The Philippines' support for free trade within the ASEAN region presumably stems from the prospects of reductions in the unused capacities in its industrial plants. But, unlike Singapore, the Philippines has a high-cost production structure which requires high protective tariffs for survival. An intra-ASEAN free trade may therefore hurt some of its industries badly, as they may be able to withstand regional competition. But, it is natural for the Philippines, which has remained for too long somewhat aloof economically from the rest of the region owing to its historical and geographical factors, to be anxious to strengthen its regional ties and to increase its economic involvement in the region at least for political reasons. The Philippines thus seems to be willing to face the risks associated with free intraregional trade for the sake or regional solidarity.

Indonesia's negative stance on the question of a Free Trade Area for ASEAN, is understandable in view of the special characteristics of the Indonesian economy. Indonesia is the largest member of the ASEAN group in terms of both population and land area. It is rich in resources; it has a fairly big national market; and it enjoys more than a comfortable balance of payments position thanks to its huge oil surplus. Indonesia thus has no urgency to resort to regional outlets to increase its exports. On the other

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hand, the high rate of inflation has rendered Indonesia a high-cost economy where the manufacturing sector is not competitive. Indonesia fears that complete liberalization of trade within ASEAN would not only inflict injuries on its high-cost industries but also strain the economy by liberalizing domestic consumption which have been kept at low levels by deliberate policy measures.

It is, however, difficult to reconcile Malaysia's super cautious attitude towards ASEAN free trade with its outward-looking economic profile. Malaysia has one of the most open and efficient economies in southeast Asia. Its manufacturing sector is fairly competitive with an extremely mild tariff structure and Malaysia has been successful in shifting its industrial strategy from import substitution to export orientation. The growth of Malaysia's exports of manufactures has been quite spectacular. Its gross exports of manufactures has increased substantially from M$ 167 million in 1967 to M$ 2,810 million in 1977, meaning that the share of manufactures in total exports has jumped from 4.5 per cent to 18.7 per cent between 1967 and 1977.[24/]

The explanation for Malaysia's ultra-cautiousness with regards to the proposed ASEAN Free Trade Area perhaps lies mainly in its grave concern for the emerging bumiputra economy which is not on a sound footing yet. The faltering bumiputra economy has been bolstered by domestic market distortions under the New Economic Policy which has been designed to increase the bumiputra share in the ownership and control of the Malaysian economy. It may be argued that it is bad enough for the bumiputra businessmen to compete with the more experienced and efficient Chinese competitors from within, and it will be worse if they also have to face ASEAN competition from without. A counterargument will be that ASEAN economic co-operation through freer intra-regional trade would significantly widen the scope for bumiputra participation in commerce and industry.

Malaysia's attitude towards the concept of an ASEAN Free Trade Area may also be explained in terms of the Malaysian support for Indonesia. "Malaysia has various reasons for solidarity with Indonesia, not least a conviction that ASEAN is politically and strategically important, but only while Indonesia remains a loyal member".[25/] It is therefore important "to avoid Indonesia feeling isolated and subjected to pressure from all four of her ASEAN partners".[26/] Malaysia's posture as a conservative force in the

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24/ New Straits Times, August 27, 1978.

25/ H. W. Arndt, "Malaysia and ASEAN Economic Co-operation", Asian Studies Association of Australia Second Annual Conference, mimeographed.

26/ Ibid.

ASEAN economic set-up thus appears to be largely due to political considerations overriding pure economic logics.

Thailand does not seem to belong to either the conservative camp or the radical camp on matters of free intra-regional trade. In this context what Thailand perhaps fears most is not the economic consequences of competition that would stem from free intra-ASEAN trade but the political implications of a split within ASEAN between the two camps. For, free ASEAN trade is not likely to cause extreme difficulties for the Thai economy. Its relative superiority in food production is unlikely to be challenged by any of its ASEAN partners. Its manufacturing sector is also mature enough to withstand the ASEAN competition. Moreover, Thailand's balance of payments position within ASEAN has been so enviably comfortable that Thailand may even be willing to let its trade surplus to be reduced substantially for the sake of regionalism.

All these seem to suggest that Thailand may well prefer the ASEAN Free Trade Area option and join the radical camp of the Philippines and Singapore. But Thailand is apparently worried that such an action would widen the rift within ASEAN. It may therefore be imperative for Thailand to play a neutral role as a balancing force.